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GENERAL

Overview of Economic, Political, Scientific Changes in World

92CM0015A Beijing XIANDAI GUOJI GUANXI
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[Article by Wei Lin (5898 2651), Chinese Academy of Social Sciences: "A Historical Turn in the World's Economic and Political Situation"]

[Text] As the world rapidly moves into an era of advanced science and high technology, and human society again faces a period of swift developments, the most profound changes since the end of the war are now occurring in the world economy and world politics. The world economy is displaying a trend toward "globalization" of international economic relations coupled with a trend toward the formation of economic blocs. World politics and its power relations are rapidly moving toward a balanced state of multipolarization. The entire world is momentarily in a state of transition which signifies a historical turning point. The changes that are successively occurring in the world's economy and politics again confirm the fundamental tenets of Marxism as to the interrelationship of economy and politics and also reveal the deeper sources for the many confusing changes and for the increase in elements of unpredictability in the international situation.

The World's Economic Trend Toward Globalization and the Formation of Blocs Under the Impetus of the New Technical Revolution

In the middle of the present century, important breakthroughs in science and technology, such as the human discovery and application of atomic energy, the birth and development of the electronic computer, and the mastery of space technology marked the beginning of the third technical revolution. Its impact produced enormous changes not only in all aspects of social production (including economic growth, industrial structure, the accumulation and concentration of capital, investment policies, etc.) in the industrially developed countries but has also had a huge impact on world politics. The advent of the nuclear weapon and its technological development provided the material prerequisite for a political struggle of global dimensions between the superpowers and for the polarization in the overall world situation—the huge conflict that dominated all postwar political activities. In December of 1973, the capitalist world became bogged down in the worst postwar economic crisis, and as a consequence the scientific and technological revolution subsided for a time. However, beginning in the last years of the 1970's, a new scientific and technological revolution arose with the advent and application of the science of microelectronics. The core of this scientific and technological revolution was information technology. It integrated the new discoveries in some of the other new scientific and technological discoveries and caused the

development of a whole series of new products and of a large array of new high-tech industrial sectors. Of particular significance was that the intermediary time between scientific discovery and technical application was greatly reduced. In contrast to the fact that the basics of many applied techniques of the present century had been laid as far back as in the 19th and 20th century, the time required from discovery to application in the present scientific and technological revolution is generally 12 years, in some cases only a few years and sometimes even only a few months. The impact on human society of the present revolution, compared with previous scientific and technological revolutions, is therefore much more widespread. Even after all the developments of the 1980's, the new scientific and technological revolution is still in a process of ascendancy. At present, the world's three fields of advanced developments in science and technology (information, new materials, and bio-engineering) are in the process of initiating qualitative changes that are promoting the social-productive forces. The technological development of the information science system, including microelectronics, electronic computers, photo-electronics, software engineering, and artificial intelligence, is presently in the process of establishing a knowledge-based economy. It will grow and develop to constitute the basic element in the future economic development of the 21st century. In the field of material sciences, an ever increasing amount of synthetic materials is being used in place of traditional natural resources. If, in particular, the superconductor research—regarded as this century's last important revolution—would one day lead to widespread applications in the areas of energy resources, communications, and computers, it would certainly bring about a profound change in industry. In the area of bio-engineering, the breakthroughs achieved by basic research to reveal the secrets of life (gene splicing) has provided scientists with the power to change and control the hereditary genes within cells; applied bio-technology is nurturing many new plant and animal species and will quite possibly change the nature of the world's grain production. The above-mentioned three great fields of advanced science and high technology have an extremely strong strategic significance in the ongoing competition in world economy. Other fields, such as the development of mineral resources in the oceans, exploration of outer space, the production of new materials, the fifth generation computers of artificial intelligence, nuclear fusion, and the various regenerative energy sources, will all enter their applicative phase in the 1990's. Looking forward into the new era, the composite body of all advanced science and high technology, built up on the integration of all the knowledge-intensive and highly scientific elements and closely linked up with production, will bring about this: three factors of productive forces (workers, means of production, raw materials) will undergo revolutionary changes and the entire production system will enter a process of qualitative change. By that time, Marx's predictions regarding the development of the

human productive forces, namely that material production, with the help of science, will so change as to control all natural forces, will become reality.

The trend toward globalization of the world economy and the formation of blocs became first apparent during the middle of the 1980's and caused a reaction of qualitative changes in the social productive forces in the international production relations.

On the wave of all these swift developments in the advanced science and high-technology revolution, and despite the fact that economic developments were becoming more uneven in the various countries, international trade and international investments presented a scene of unprecedented prosperity. The growth rate of recent international trade during the last four consecutive years exceeded the growth rate of the world's production, while the speedily rising growth rate of international investments exceeded by an even larger margin the growth rate of international trade; the amount of currency circulation was around 10 times the amount of international trade. The multinational corporations that operate with direct investments have extended their operations into all kinds of countries and territories and have given rise to a kind of global corporation that breaks down state frontiers and regards the entire world as one market. The rise of this new type of corporation signifies a large step toward the establishment of a unified world market and the even deeper and more extended internationalization of production and capital. Under this new situation, the network of economic relations between investors, producers, and consumers all over the world is becoming much closer. Economic activities of all countries within this intricate and complex network are of an osmotic and mutually stimulating character. As a consequence of this globalization of world economy, the economic prosperity of all countries is to a great extent determined by the level of participation in the world economic system. It is no more possible for any nation or people to seal itself off in its own national economic system and then still expect to achieve development and prosperity.

However, having a world with this kind of mutual reliance does not mean extinction of mutual competition and confrontation between countries. Because of the natural inequalities between the various countries, their historical conditions, the disparity in their developmental levels, the unequal distribution of natural resources, etc., the many contradictions inherent in this mutual reliance, which after all exists between sovereign states, and the irrational international economic order aggravate the inequitable character of the mutual reliance. The more mutual reliance there is in the world economy, the more fierce the competition between the various countries within this system to gain the most advantageous positions and reap maximal possible profits. These are precisely the reasons for the daily increasing economic regionalization and the formation of blocs that accompany the trend toward globalization in the world economy.

Formation of regional unified economic organizations by means of treaties between states is a new feature in postwar world economy.

As early as 1949, the Soviet Union and the countries of Eastern Europe organized the "Council for Mutual Economic Assistance" [COMECON] to cope with the economic blockade of the Western countries. This was the first organization for regional integration. Following COMECON, six developed capitalist countries of Western Europe established in 1957 the "European Economic Community" [EEC] to monopolize the West European market. In the 1960's, the developing countries too, one after the other, established all kinds of similar organizations of economic integration to realize their developmental strategies of industrialization and to resist domination by neo-imperialism. However, in the 1950's and 1960's the degree of integration still remained at a low level and had only a very limited influence on world economy. The regionalization and formation of blocs at that time was therefore a trend that attracted little general attention.

By the middle of the 1980's, things began to change. In two expansions the EEC enlarged its membership to 12 countries and became the world's largest regional economic entity. That was precisely the time of swift developments in the science and technology revolution in the United States and in Japan, and the time when Western Europe gradually lost its technological leadership position, which it had formerly held. Western Europe, therefore, also experienced a retardation in its economic growth and a serious threat to its position in the world economy and to its national income. Fierce competition in the international market prompted the EEC to move on from a customs federation in the direction of an organization with a much greater degree of integration. In 1985 they began to prepare for a "unified market, without borders and without customs and trade barriers." As prescribed in the "documents for European integration," the intended objective is to achieve complete freedom as to commodities, capital, individuals, and labor on the territories of the 12 member states by the year 1992.

West European action and the challenge of Japan's economic and scientific-technological development, have induced the United States to step up organization of a "North American free trade zone." The United States and Canada have already signed a free trade agreement with plans to abolish, within 10 years from 1989, all customs duties on both sides, and to establish by the year 1992 a unified investment, foreign trade, financial, and labor market within the free trade zone. Discussions are also presently under way with the intention of signing a free trade treaty with Mexico. When giving testimony before the U.S. Congress, congressman Colby said: "If the United States, Canada, and Mexico could establish a North American trade federation, it would enable the United States to better compete with the other trade blocs that are forming in Europe and Asia, and it would preserve our competitive strength on

a global scale. This trading bloc, with a population of almost 400 million people, would become the largest trading bloc in the world." In June of 1990, President Bush put forward the further proposal of an all-American free trade bloc that would reach from Alaska to Argentina.

The United States is going ahead with its plan to establish a Western hemisphere economic sphere but is, on the other hand, also promoting further more intensified integration within the EEC as well as the extension of the sphere of its integration. The EEC summit meeting in December of 1990 decided that the second stage of the EEC's economic and monetary federation shall start in 1994 so as to effectively coordinate the economic and monetary policies of the various member states. In its negotiations with the six-country European Free Trade Association for the establishment of a European economic zone, plans were made to have the European economic zone established simultaneously with the large market. Moreover, quick progress was also made in plans for the establishment of a European political federation. The framework for an EEC's political federation was already formulated December of last year, and the move is indeed presently under way to advance from economic integration to political and military integration.

The first to be affected by the planned formation of the North American and the European economic blocs and their moves toward greater integration will be the Asian countries. Especially the export-oriented newly industrialized countries and territories will be particularly and directly threatened. Even an economic superpower as Japan is also concerned about the pincer attack threatening from European and American "regionalism" and is therefore beginning to feel a sense of urgency about early combined and joint counteraction. In 1988, the Japanese economic planning agency developed the idea of an East Asia economic zone with the main purpose of "establishing an open market in the region of East Asia and at the same time to cope with such regionalism as the growing integration within the EEC and the signing of the U.S.-Canada free trade agreement."¹ In the economic zone that is thus envisioned, Japan would be the main axis, and the zone would comprise the "four small dragons of Asia" as well as the six ASEAN countries, i.e. altogether 11 East Asian countries and territories. As strategic measures, Japan would further lower customs tariffs, expand direct investments, and raise the proportion of trade settlements in Japanese yen. This so-called "three in one" strategy would deepen Japan's economic relations with the newly industrialized countries and territories. Disregarding the unevenness of economic developments between the countries of this region and their great disparity in social and ethnic peculiarities, especially also in view of the history of Japanese aggression when propounding the "Asia Co-Prosperity Sphere" during World War II, it seems unlikely that a unified organization of the kind of the common market could be built up in the near future. However, since the middle of

the 1980's, Japan shifted the key target of its Asian investments to Southeast Asia, planning to establish an international production cooperative system by means of direct investments. The newly industrialized countries and territories, for which trade is the economic lifeline, will find themselves under pressure when the United States and Europe will abolish favorable customs tariffs and will force the value of their currencies up to restrict imports, and they will therefore have no other way than to shift toward the Japanese market, striving to gain "relative economic profits" from an economic cooperation with Japan. At present, Japan has already overtaken the United States as the largest supplier of capital in this region. The expansion of investments has stimulated rapid trade increase, the proportion of mutual trade within this region was already as high as 38 percent in 1989. In a few years time, this will possibly exceed 50 percent, and as a consequence will form a trading zone of the third rank, the Asia trade zone, in importance ranking only after North America and the EEC. This is a division of labor in production and a cooperative scheme that is of benefit to Japan, even though outwardly not yet an organization formally integrated and established by the government itself. Because this region is basically quite capable of contending with the United States and the EEC, also has a very large population, low labor costs, and a stable supply of raw materials, it is in an excellent position to ensure for the Japanese economy that it can maintain a comparatively high growth rate in the future international economic environment. American newspapers too have expressed the opinion that this region has begun "a process of uniting and integrating all these economies by means of the huge Japanese investment machinery."

To sum up, the trend of forming blocs in the world economy will by the end of the 1990's create three large groups of economic strength. This tide to form regional groups is not at all in conflict with the simultaneous process of globalization of world trade. In fact, the formation of blocs is a form of internationalization of world trade. At a time when the large economic countries enter an era of competition for economic power, it is an activity by which they enhance their competitive strength as they combine with neighboring countries of common interests, and through well organized economic-technological cooperation contend with the other economic blocs for the markets of the world. The competition between the blocs is bound to lead to an ever increasing intensity of integration, while between the blocs, each will try to get around the restrictive trade barriers of the other side through direct investments in the market of the other side and the establishment there of production bases that will be able to enjoy the benefits of free commodity trading within that local region. For this reason, transnationalization of trade will further develop. All this will be conducive to the globalization of the world economy. As to the effect of the formation of economic blocs on the world's political situation, it will mainly, in the fierce competition between the blocs, lead to a greatly accelerated balancing of relative strengths in

a multipolarized overall situation. A state of having one or two large countries dominate the overall situation in the world is something that will hardly reappear for a considerable time to come.

The Yalta System and the Fundamental Causes for the Disintegration of the Bipolar World Situation

When on 3 October 1990 bells rang out at Berlin's Imperial Plaza to announce to the world that the Germans were celebrating their reunification, the "Yalta system," by which the two superpowers, the United States and the Soviet Union, had divided among them the rule over Europe, came to an end. As a consequence, the world's political situation, which had been built on the foundation of the said system, experienced a change that denoted a critical turning point in history. On the international stage, the curtain of history had come down on the "postwar era," and there will be a change of the main actors. Although the world's fundamental conflicts still remain as before, the process of shifting main contradictions has already begun. The three large power groups, the United States, Europe, and Japan, contend for world economic leadership in the 21st century, and this is indeed taking the place of the former struggle for hegemony between the two superpowers. As the curtain of history slowly rises, the new scene will be one of an "intangible war," namely a struggle for economic and scientific-technological superiority. In contrast to the military factor, it will now be more by economic factors that the fate of the various nations of the world will be decided. During the process of transition from the old to the new situation, it will be the economic competition rather than the competition in the arms race that will constitute the crucial point in international relations. The threat to a country's security will mainly come from whether its economic strength can keep pace with the times. It is precisely for this reason that science and technology, the motive powers for economic development, will more and more become the strategic factor with the most significant effect in international relations.

The Yalta system was a product of World War II; it was mainly a new distribution of spheres of influence in the postwar world, carried out by the United States and the Soviet Union on the principle of equality of strength between the two. The partition of Europe and the confrontation that firmly fenced off the two military and political groups from each other were the direct consequences. During the cold war period, the United States and the Soviet Union were for a long time engaged in quarrels over the delimitation of Europe according to the Yalta agreement and over the question of Germany. The target countries for the arrangements of the great powers were also continuously attacking the Yalta system. In the 1970's, during the so-called "period of detente," the two superpowers had a common need to consolidate their respective spheres of influence, and they confirmed in form of a treaty, the final act of the Conference on Security and Cooperation in Europe, the status quo of the divided dominance of Europe. However, by the

middle of the 1980's, after the United States had readjusted its military preparedness, President Reagan in his speech on the occasion of the 40th anniversary of victory in World War II repudiated the idea that the Yalta agreement had determined the postwar frontiers and the division of Europe. He declared that the United States will make every effort to establish a "Europe that will be a union of East and West Europe." This evoked an immediate counterattack by the Soviet Union, which emphasized that the Yalta agreement established the inviolability of the then European frontiers and that "violating the Yalta agreement means violating peace." However, since 1989 a shift has occurred in the East-West power ratio to the detriment of the Soviet Union. The Soviet Union, one of the protagonists in the bipolar structure, suffered a dramatic deterioration of its economy, which led to internal political, social, and ethnic turmoil and which in turn forced a complete strategic contraction in its foreign policies. The disintegration of the Yalta system has therefore been brought about by developments in the world economy that destabilized the equilibrium of the world's political forces.

As early as in the later years of the 1950's, the high-speed growth rate of the Soviet economy began to weaken, and on reaching the 1970's, a massive declining trend became even more evident. According to U.S. statistics, the average annual growth rate in the GNP of each five-year plan of the Soviet Union from its Eighth Five-Year Plan (1966-1970) until its Eleventh Five-Year Plan (1981-1985) was 5.1, 3.1, 2.2, and 1.8 percent, showing a successively declining trend plan after plan. Economic growth rate statistics published by the Soviet Union also show a successive decline. Starting in 1988, the Soviet economy worsened further, partly due to the fact that for three consecutive years annual plan targets were not fulfilled in the case of a series of important norms of national income. In 1989, when tremendous changes took place in Eastern Europe, the deficit in Soviet finances reached 92 billion rubles, which amounted to 10 percent of its GNP, by far exceeding the ratio (3.5 percent) of the U.S. deficit in relation to its GNP. Other than in case of the United States, the Soviet Union cannot rely on foreign investments to help cover its deficit, but must mainly rely on printing more currency. The currency issue in this one year therefore steeply rose by 56 percent, by far in excess of the potential of commodity and labor production increases. The state has an internal debt of 400 billion rubles, which amounts to two-thirds of the 1987 national income of 600 billion rubles. In 1990, the Soviet economy even presented the first negative growth rate in its history; the GNP, the national income, and social labor productivity, compared with the preceding year, declined 2, 4, and 3 percent, respectively. The amount of currency issued increased 0.5-times. The commodity guarantee for each ruble of the currency declined continuously from 0.18 rubles to 0.12-0.14 rubles. The state's internal debt exceeds 550 billion rubles. Compared with the 1960's, the position of the Soviet economy in the world economy suffered a disastrous decline. At that

time, the Soviet GNP rated in the world only second to that of the United States and was far ahead of those of the EEC and of Japan. The decline in national strength brought about by the dramatic deterioration of the Soviet economy is the fundamental cause for the final disintegration of the bipolar world situation. This too is the reason for the bloodless and peaceful feature of the present transition from the old to the new situation. Historically, changes in the international equilibrium are mostly brought about by war or other military measures. However, in the present dislocation of the balance in the world's forces, the decisive role was played by the economic factor; it was the consequence of growth and decline of economic strength.

The World's Political Situation About to Develop into a Balanced Multipolar Structure

Since the 1960's, control of all global affairs by the two superpowers, the United States and the Soviet Union, has been assailed and also restrained by multipolar forces for independence and self-determination. The third world, as it has developed and constituted its non-alignment movement, has become a political force, independent of the United States and the Soviet Union, but with an impact on the development of the world situation. The economic strength of Western Europe and Japan has been continuously increasing under the U.S. policy of strengthening its system of alliances with the intention of containing the Soviet Union. However, in all of this, there has also been a continuous development of centrifugal trends. France has publicly declared that it will not be a satellite country of the United States and has retired from NATO's military organization. In 1968, Japan started to readjust its "one-sidedly pro-U.S." foreign policy and is pursuing a foreign policy line that is "multipolar and asserts self-determination and equitableness." The principles of Socialist China are opposition to hegemonism and nonsubservience to any other large nation; it pursues a peaceful foreign policy of independence and self-determination. Under these circumstances, President Nixon in 1971 for the first time put forward the maxim of the "five large centers" in the world. While upholding the theory of the "confrontation of the two systems," the Soviet Union too began, as from the 24th Congress of the Communist Party of the Soviet Union, to acknowledge that three power centers have formed in the capitalist world, namely the United States, West Europe, and Japan. All this demonstrates that the trend in the power structure of the world toward multipolarization is showing a forcefulness that cannot be defied anymore. However, this kind of multipolarization is different from the multipolar structure prior to World War II. Since the United States and the Soviet Union each have a military and economic power by far more powerful than any other country, and since they continue to dominate their respective military and political blocs, while all the other "poles" merely have power over their own particular territory, they alone, the United States and the Soviet Union, can exercise economic and political influence in world affairs. Especially Japan and

Western Europe, which derive their strength from the U.S. system of alliances, can only undertake action where their own interests are concerned, but in matters linked with the East-West confrontation they are still forced to follow the United States. The present world situation is therefore still a multilayered one and does not deserve to be called a structure of bipolar or multipolar coexistence.

With the 1980's the world has entered into an era of advanced science and high-technology, and the standards to assess a country's strength have consequently also undergone change. This is so because the developmental level of advanced science and technology, and the growth rate of economic development derived from it, have become the key sources of strength, while the significance of military strength has proportionally declined, even though possession of a large military force can still achieve major political effects. Economic strength is the core of a state's composite strength, and the closely related strength in science and technology has become elevated to the position of an important strategic factor. Developing the economy as well as science and technology is the most important task of every government in the 1980's and must be the starting point for the formulation of a country's strategy. Any large country that cannot maintain superiority in the economic, scientific, and technological competition will in the end lose its position of a large country. As we use these standards at this time and compare the growth and decline in the strength of the various countries, in the examination of the present "five-polar political" overall situation in its global influences, the future developmental trend can quite possibly be that in the beginning of the next century a comparatively balanced multipolar world situation will evolve.

1. Developmental Trend of the Comparative Strength of the Capitalist World's Three Large Centers

Forecasting Economic Growth Rates. Since the 1970's, the U.S. economy is sliding downward. The average annual growth rate of its GNP during the period from 1970 to 1982 was 2.7 percent. Even after surviving the world economic crisis of the early 1980's and in the time of economic recovery in 1989, the average annual growth rate of the GNP was actually also only 3.45 percent, and this growth rate was furthermore only achieved with the help of deficit spending and the influx of foreign capital. It was achieved at the price of dropping down from the position of the world's largest creditor nation to that of the world's largest debtor nation. Any conjecture of the growth rate of the U.S. economy in the 1990's, will, even most optimistically, only place it at between 2.5 and 3 percent. In its proportion of the world economy, it will continuously decline further from its present 23 percent. In contrast, there is the rise of Japan as from the end of the 1960's. During 1970 to 1982, the average annual growth rate of its GNP had already reached 4.6 percent, and in the last few years it further narrowed its gap with the economic strength of the United States; its GNP [gross national product] is by now already about 60

percent of that of the United States. In the matter of industrial investments, Japan has already overtaken the United States in the last five consecutive years; in 1989 its total investments were about \$750 billion, i.e. 1.5 times the \$500 billion of the basic investments of the United States. Katsu Yoshitomi, director of the Economic Research Institute of the Economic Planning Agency of Japan, believes that if the Japanese and the U.S. GNPs continue to grow at the rate of 4 and 2.5 percent, then the absolute figure of the Japanese GNP will reach that of the United States by the 21st century, and its per capita income may double. The other opponent of the United States in the competition, Western Europe, has an even larger developmental potential than Japan. The present value of domestic production of Western Europe already exceeds that of the United States, as it reached \$5.6 trillion.³ After the establishment of the large unified market, Western Europe will have an even more substantial economic base.

Predicting levels of scientific and technological developments: As we look at the starting points of the present competition—the scientific and technological potential and developmental conditions—we see that the United States is everywhere ahead. Especially its investments in basic scientific research have increased at the rate of 10 percent per year, and as a consequence the United States has been maintaining its leading position in scientific discoveries and inventions and in the advancement of theoretical principles. Since Japan from 1979 on adopted the developmental strategy of "science and technology to be the foundation of national existence," its science and technology has been developed at a tremendous pace. By 1987, Japan was second only to the United States in such matters as scientific research investment, the number of research staff, research facilities, and the number of research publications, thus becoming the second largest science and technology country of the world. In 1990, Japan's scientific research investment reached as high as 2.9 percent of its total GNP, while scientific research investment in the United States declined to 2.5 percent. Japan uses the scientific research achievements developed in the United States, develops and improves them in its own research, and increasingly leaves the United States behind in technical developments and their actual applications in the manufacture of products. After comparing 12 critical items of technology as used in Japan and Europe, the U.S. Department of Commerce reported in June of 1990: "In the application to the manufacture of goods, the United States has fallen behind Japan in five items of technology; it is close to Japan with regard to three items; and in only the remaining four items is the United States still in the leading position. Moreover, the United States is also gradually losing its superiority with regard to those items where the United States is now in the leading position or on an equal level; the situation is indeed extremely serious."⁴ Under these circumstances, Japan is trying with all resources at its command to capture the leading position in the world's science and technology. Japan has shifted its science and technology policy

toward the development of new scientific knowledge and is energetically promoting pioneering research, with basic research as its core. Since 1987, Japan has set the 21st century as target period for a series of large-scale research plans, centering on biotechnology, comprising a "Plan for Research in New Fields of Anthropology." These plans entail extensions or blending of the three critical branches in the field of high-technology, namely bio-engineering, new materials, and information science, and they hold good prospects for great scientific advances. Western Europe, too, is in the process of redoubling its efforts in science and technology. The countries of Western Europe, which have been the birth-places of the first and the second technical revolution, possess the world's first-rate basic science laboratories and institutes. With financial support from 14 countries they are building a "LEP" [large electron-proton collider]—the largest particle accelerator of the world, which was already successfully tested in 1989 and which produced "Z" particles, considered one of the most important scientific experiments of the final years of this century. Closely following on this feat, Germany in 1990 built the Hena [as published] underground circular basic particle accelerator, which is presently the only installation which can achieve proton and electron collisions. These two large-scale scientific engineering projects will play an important role in ensuring for Europe the leading position for the next 10 years in the research in particle physics. However, because Europe has missed the chances at the beginning of the microelectronic era, it is lagging far behind the United States and Japan in the application of new science and technology and in competition in the field of high-tech products. To mend this situation, the various countries of Western Europe are now determined to go the way of joint development. In 1985, they established an organ for coordination of European scientific research, i.e. the "Eureka" plan (West European Community for Research in Crucial Technologies). The aim is to smoothly transfer the basic research achievements of the various countries to industry to bolster industrial competitiveness. In the past five years, the "Eureka" plan has achieved conspicuous progress. Among its 385 joint research projects, one-fifth have been successfully completed or are near completion, and the plan has reached the stage of continuously achieving results. At present, Western Europe, including "Eureka" and the research plans of the EEC as a whole, altogether is working on five very large research and development projects.

2. The Soviet Union Remains a Large Country With Global Influence

Despite the Soviet Union's many internal conflicts and extremely precarious political situation as it presently is undergoing the painful period of economic reform, militarily it still has a huge military strength which can match that of the United States, and we cannot yet dismiss the possibility that it can stabilize its internal political situation. The Soviet Union extends over the continents of Europe and Asia and still remains in the

position of a large country with global influence. Moreover, as the end of the cold war is lightening its financial burden of military expenditure, the Soviet Union, with its abundant natural resources and a science and technology potential that is not below that of the United States, is completely capable of regaining a five percent level in the growth rate of its social output, and thus is capable of narrowing its gap with the developed countries in overall economic strength.

3. China's International Position To Rise Markedly During the Last Years of This Century

Socialist China, with a 5,000-year-old culture and one-fifth of the world's population, was recognized in the 1950's by the international community as an important country in the political arena. However, in economic respects, it was of limited strength because it had only recently emerged from the oppressed state of a semi-colonial and colonial condition; therefore it had a poor base and started out at a low point. Even though this was the case, New China, on gaining its independence, kept developing right up to the 1980's and began to advance at a steady pace toward becoming a great economic country. According to data published by the World Bank, China's GNP in 1980 was \$283.2 billion, which ranked it eighth among the 159 countries of the world, just after the United States, the Soviet Union, Japan, the FRG, France, Britain, and Italy. On this basis, after a further two five-year plans of economic development, the GNP had increased 1.3 times over. The economic growth rate exceeded by far the world's average rate and that of the developed countries. During 1981 to 1985 the annual average growth rate was 10.1 percent, during 1986 to 1990 it is estimated to have been 7.6 percent. Of course, with so large a population, the per capita national output value is rather low. According to the forecast published by the World Bank, the average economic growth rate and the average per capita economic growth rate of all East Asian countries and territories in the 1990's will be 6.6 and 5.1 percent, respectively, while for China the figures will reach 6.8 and 5.4 percent, respectively. Developing according to these ratios, the aggregate strength of China's economy by the year 2000 will not only attain the target of another doubling of the GNP, but will mean overtaking Italy, Britain, and France, and advancing to fifth place in the world. Of course, if China wants to join the circle of advanced nations at this time of advanced science and high-technology, it will still have to catch up in scientific and technological advances with the industrially advanced countries. Examining the situation under this aspect, it was only after the inception of New China that the country first placed emphasis on the organization and buildup of science and technology. During the 1950 and in the first half of the 1960's, the state's political situation was stable and scientific research achievements showed an upward tendency of indices, doubling once every 1.4 or 1.6 years. After 1976, the growth rate was basically close to world levels. At present, China's human resource in science and technology is not much

different from that of the developed countries. Up to the end of 1988, the contingent of science and technology personnel has expanded to 9.66 million persons, among these the number of medium and high-level scientific and technological experts is over 700,000. China has relied on its own strength in science and technology to solve the major science and technology problems in its national economy and in its national defense buildup; it has also developed a nuclear industry and a space industry. During the last few years, nuclear energy technology and space technology have achieved development of breakthrough character. In information technology, China has also developed a 100 million-operations giant computer and a 10 million-operations vector. Looking forward to science and technology developments in the 21st century, China's high-technology research plan has determined space technology, laser technology, bio-engineering, and artificial intelligence as its priority targets. In the area of basic science, high temperature superconductor research has already reached the world's advanced level. The positive and negative electron collider and the heavy particle accelerator, which have recently been constructed, and other such science engineering projects and items of large-scale scientific equipment will spur on China to advance to the high peak of modern science and to open up even more new boundaries. We can absolutely affirm that as long as Chinese society will continue to maintain its present stability, to carry on in its socialist construction the tradition of the past, to forge ahead into the future, and also to keep confidently to the trend of economic and technological development, China will, when the 21st century shall arrive, certainly have enhanced its political position in its relation to the world and have enhanced its right to speak on the international stage.

Speaking of a turning point at the present stage of history means that after the disintegration of the bipolar situation, the overall world situation is about to make a transition to a balanced multipolar situation. Although the United States is now the only superpower in the world, its economic strength is relatively declining as it continues to face the problem of a serious double digit deficit. Western Europe and Japan are closely behind the United States and have become the main U.S. competitors. Consequently, a situation dominated by three rivals has become an objective reality. The internal political instability in the Soviet Union is introducing an element of uncertainty into the international situation at this turning point in history. However, the Soviet Union still maintains its position of a great country. Although China's economic strength is at present not on the same level as that of the developed countries, it is in the process of rapid development. In an overview of the developmental trend in the next 10 years, it appears, therefore, quite possible that basically a balanced multipolar system will evolve. Moreover, what deserves attention is the fact that the present situation and the changes due to the growth and decline of powers are quite different from what occurred during the period of the cold war because they occur not in an international

atmosphere of growing tensions, but under conditions of growing relaxation. The economic, scientific, and technological factors gain more and more importance over the military factors. Under these circumstances, the politicization of the world economy and the economic character of world politics will become the significant characteristics of our era. The economic situation of the world in relation to the political situation of the world, a relationship such as that between the foundation and the upper structure, will also in the future become more closely integrated than ever before at any time.

Footnotes

1. See June 1988 issue of the Japanese magazine SEN-TAKU.
2. The American WALL STREET JOURNAL of 2 November 1989.
3. According to the statistics in MAIN ECONOMIC INDICATORS of March 1990 by the Economic Cooperation Organization, in which the total domestic output of West Europe was given as \$5,625.5 billion and that of the United States as \$5,165.8 billion.
4. The Japanese NIKKEI SANGYO SHIMBUN of 4-8 June 1990.
5. See "World Development Report, 1990" published by the World Bank on 16 July 1990.

SOUTHEAST ASIA

Economic Relations With Southeast Asia

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[CONTEMPORARY INTERNATIONAL RELATIONS]
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[Article by Jin Dexiang (6855 1795 3276), deputy director, China Institute of Contemporary International Relations: "China's Relations With Southeast Asia Under New Circumstances"]

[Text] I. Security Environment During Change

During the early 1990's, an end was declared to the bipolar system, and the world began to enter what was termed the "post-cold war period." This was the most profound change in the international situation since the end of the war. What kind of a security environment will China and Southeast Asia face during this new period? What should both parties do during the 1990's to promote security in this region?

China and Southeast Asia are both in the Asia-Pacific region. Their security environment is both influenced by changes in the world situation and directly affected by developments in the Asia-Pacific region. In addition, the future policies and trend of developments in China and each of the countries of Southeast Asia will also have an important effect on the security of this region. Events are studied below in these several regards.

1. Following the conclusion of the bipolar confrontation, the situation in the Asia-Pacific region tended to ease in an overall sense. During the 1990's, the Asia Pacific region will likely be relatively peaceful. This is not just because of the easing of the confrontation between the United States and the Soviet Union in this region, but more importantly because the incessant heated wars in this region during the more than 40 years following the end of the war occasioned power politics and hegemonic policies of warfare, which have encountered widespread opposition and have been steadily foiled. Peaceful solution of disputes is the common desire. It is against this background that the Cambodian problem has taken the path of a political solution, and relations among all countries generally improving gradually. This is a fine turn of events unprecedented since the war.

Nevertheless, some problems or potential elements for instability continue to exist in the Asia-Pacific region. The United States and the Soviet Union continue to deploy large military forces in the Asia-Pacific region that confront each other. Talks between the United States and the Soviet Union on arms reductions in the Asia-Pacific region have yet to be placed on the agenda. The Korean peninsula must fully eliminate tensions. It will also have to follow a very long course to realize unification. In addition, territorial, religious, and ethnic conflicts still exist within or among nations in the Asia-Pacific region. This means that countries in Asia and the Pacific will have to continue to cooperate in eradicating this legacy of conflicts and clashes, and prevent the appearance of new hot spots.

2. During the overall trend toward the development of a multipolar world, a situation of multiple forces that are mutually limiting will take shape in the Asia-Pacific region in the 1990's, a situation in which no large power will be able to gain a position of hegemony. This is beneficial to the region's security. An analysis of U.S., Japanese, and Soviet policy trends is highlighted below.

The United States remains the country having the greatest influence in the Asia-Pacific region. However, the United States faces numerous and tremendous economic difficulties; its international standing and control capabilities have already been greatly weakened. The Gulf War showed that in order to defeat Iraq, a medium-size power, the United States superpower had to get the assistance of countries such as Japan and Germany. In the Asia-Pacific region, the United States is facing increasingly intense competition from Japan. Frictions between Japan and the United States will become the greatest problem the United States faces. Today, Japan's GNP is already 60 percent that of the United States, and its per capita GNP has surpassed that of the United States. Its economic influence in the Asia-Pacific region has also surpassed that of the United States, with Japan becoming the main source of investment and credit. The United States' adverse trade balance with Japan reached \$41.1 billion in 1990, and Japan's investment in the United States totaled \$30 billion. Frictions between the two countries about intellectual property rights and the patent system became

more acute, and competition in the field of newly developed high technology intensified. Anti-Japanese sentiment rose in the United States, and in the cultural and political fields antipathy between the United States and Japan also deepened. According to reports, approximately 68 percent of Americans believe that Japan has already replaced the Soviet Union as the main threat to the United States. Japan, for its part, is intensely displeased with U.S. efforts to force readjustment of its economic structure and reform its economic system. Mutual recriminations between the two have steadily escalated. In both countries, people demand that a hardline attitude be taken against the opposite party. Although both sides still have mutual economic, political, and security needs, and are maintaining cooperation, because the Soviet Union no longer poses a serious threat to Japan, Japan's security reliance on the United States has diminished. As a result, the security ties that bind the two parties to cooperate will gradually weaken. The possibility of a widening of the conflict between the United States and Japan exists politically and economically. The United States' recent concern about improvement in the relations between Japan and the Soviet Union may also be attributed to this.

In view of the easing of relations between the United States and the Soviet Union, the United States has considered a gradual reduction in forces stationed in the Asia-Pacific region as a means of cutting its fiscal burden. It has already reached agreement with South Korea to withdraw 7,000 U.S. troops within three years. It has also indicated to the Philippines its intention to give up its Clark Airfield and Subic Bay bases within 10 years. If relations between the Soviet Union and Japan ease, the United States will also be hard pressed not to reduce its forces in Japan. This will make the U.S. government consider how to use a balance of all local forces to maintain regional stability. It will strive to preserve the Japanese-U.S. alliance in order to rely on it itself as well as to restrict Japan. At the same time, it will want to maintain cooperation with China, and give extremely close attention to the role of ASEAN.

Following the United States' victory in the Gulf War, however, some Americans seemed to overestimate their country's strength, and were more interested in interfering in the affairs of other countries. If these people's stand sways U.S. policy, it will damage the United States' relations with the countries concerned, and it will also be detrimental to regional stability.

Japan is already an economic superpower in the Asia-Pacific region. Since 1990, Japan has quickened the pace of its march toward being a "political power." Japan advocates the building of a "new world order led by the three poles of Japan, the United States, and Europe," taking active part in world affairs while simultaneously adhering to an arms expansion line. During the Gulf crisis, it came up with a "United Nations peaceful cooperation law" in an effort to demolish constitutional prohibitions on the sending of troops abroad. However, Japan's road to becoming a "political power" is not smooth. No sooner did the "United Nations peaceful

cooperation law" appear than it encountered intense domestic and foreign opposition, becoming a dead letter. Although the United States asked Japan to support it in the Gulf War, it did not hope that the Japanese economic "superpower" would become a powerful political, or even a military adversary. The United States agrees only to a global role for Japan under U.S. leadership in a sharing of responsibilities. Japan also knows that it cannot do without the United States, and that it has to rely on the Japanese-U.S. alliance in order to play a global role. However, Asian countries feel generally apprehensive about Japan becoming a military power and playing a military role internationally. The Japanese people also strongly oppose Japan's becoming a military power as well as turning the Japanese-U.S. alliance into a new security system oriented toward the world. Japan's opposition parties play a major role in preventing Japan's dispatch of troops abroad. At the present time, the Japanese government is both actively improving its relations with the United States and the Soviet Union, and promoting political and economic relations with ASEAN and China. This is beneficial for the peace and the development of the Asia-Pacific region. However, Japan's intention to expand its army and play a military role abroad remains a matter about which Asian countries must continue to be concerned.

The Soviet Union faces countless crises today; the outlook is difficult to divine. Nevertheless, militarily it continues to hold powerful forces, and its economic potential should also not be underestimated. The Soviet Union will continue to play a major role in the Asia-Pacific region. Currently, it is devoting very great attention to the Asia-Pacific region, and it has generally improved relations with all countries in Asia and the Pacific. Accord has been reached on 90 percent of the territory along the Sino-Soviet border. Talks on mutual reduction of military forces in border regions and the strengthening of confidence in the military realm have also showed positive achievements. In April, Gorbachev visited Japan, where he expressed the view that Soviet-Japanese relations have entered a new stage. However, the United States by no means approves of an overheating of Japanese-Soviet relations. It is not enthusiastic about the Asia-Pacific region security proposals that Japan presented to the Soviet Union. Japan must maintain unanimity with the United States; it cannot agree to the establishment of a multilateral collective security structure that would weaken the Japanese-U.S. alliance.

3. Following the conclusion of the bipolar military confrontation, international economic competition became more intense, and economic rises and declines became an important element in national security, with Asian and Pacific countries facing new challenges. The general estimate is that the world economy will continue slow-speed growth during the 1990's. The decline of and passive trend in prices of primary products is unlikely to change. In addition, developed countries' trade protectionism will continue to grow. The economic outlook for

numerous developing countries carrying a heavy debt burden is not optimistic. Although economic development in the Asia-Pacific region is better than elsewhere, with the ever-increasing new trade protectionism, a stalemate in the Uruguay second round of [GATT] talks, and the rapid formation of regional economic blocs, one cannot but feel a threat. According to an estimate from the Japan Economic Research Center, the European Community's establishment of a large market and the United States' and Canada's establishment of a free trade zone will cause a decline in the speed of economic growth of Japan and Southeast Asia. In order to improve Asia-Pacific region cooperation, the Asia-Pacific Economic Cooperation Conference was founded in November 1989. However, because of various differences among Asian and Pacific countries, rapid advances in regional economic cooperation remain elusive. The Malaysian prime minister's proposal for the establishment of an East Asian Economic Organization ran into no small amount of opposition. Japan has scored marked advances mostly through its business world's increased economic cooperation with East Asia. During the 1990's, Japan will become the country that supplies this region with technology and components, the largest capital-exporting country, and an increasingly important trade unit. Nevertheless, the gap with Japan in the overall economic strength of the developing countries in this region is extremely great. Greater cooperation in trade with Japan will be difficult, and the capacity of the Japanese market is also limited as well. ASEAN is actively increasing internal economic cooperation, including the expansion of preferential trade, hastening the implementation of industrial partnership enterprise plans. Singapore, Malaysia, and Indonesia are also planning to establish a "golden triangle" cooperative development zone. Thailand has proposed a "golden peninsula plan" for an economic link between Thailand, the three countries of Indochina, and Burma, once the Cambodian war is over. All these events show that during the 1990's, the countries of Asia and the Pacific will be founding multilevel, multiform cooperation plans and organizations so as to avoid becoming isolated and incurring losses in international economic competition.

4. China's goals and external policies during the 1990's benefit peace and development in the local region. In March 1991, the NPC passed the 10-Year Plan for National Economic and Social Development. This plan set the main goal to be achieved during the 1990's as raising national economic and social development to a new level. Its primary requirements include a quadrupling of the 1980 GNP and having the people's standard of living reach a comparatively well-off level. This is an exceedingly magnificent and daunting task. Realizing this mission will require taking the building of the economy as the centerpiece, and making development of the economy the foundation for improving the people's standard of living and promoting social progress. At the same time, China will continue to intensify economic system reform and expand the opening to the outside

world for the improvement of socialist spiritual civilization and the building of a democratic legal system. Externally, China will adhere to an independent and peaceful foreign policy, developing friendly relations with all countries on the basis of the principle of peaceful co-existence, opposing hegemonism and power politics, and maintaining world peace.

China is extremely attentive to the development of friendly relations and economic and technical cooperation and exchanges with the countries of Asia and the Pacific. I believe that the present is one of the finest periods in China's relations with neighboring countries. Following the resumption of diplomatic relations between China and Indonesia, and the establishment of diplomatic relations with Singapore, relations with the ASEAN states entered a new stage of all-around development. With solution to the Cambodian problem, relations between China and Vietnam will also gradually improve. China will do all possible to bolster the fine momentum toward the development of relations with southeast Asian countries.

5. The trend of development in Southeast Asia is beneficial for regional stability and cooperation. Since 1987, the economies of all ASEAN countries have universally risen. In 1989, their average economic growth rate was higher than that of the "four small tigers" of Asia, reaching 7.4 percent; their inflation rates were not high. Per capita GNP in 1990 was \$12,718 for Singapore, close to the level of developed countries. For Malaysia and Thailand, it was \$2,305 and \$1,418. Within the present century, these two countries may become newly industrializing countries. Per capita GNP for the Philippines and Indonesia were \$732 and \$545 respectively. It is generally estimated that during the 1990's each of the ASEAN countries will likely maintain the speed of development of the 1970's. The fine economic situation in the ASEAN countries provides a foundation for national stability, and it also sets the stage for the widening of regional economic cooperation. In Indochina, and Burma, however, economic difficulties are fairly numerous, with per capita GNP amounting to between \$130 and \$200. In some of the ASEAN countries, problems, in the form of a polarization between the poor and the rich, serious unemployment, and racial and religious conflicts and clashes, exist. These are all elements that damage national security.

In summary, the security situation during the 1990's is rather favorable for the economic construction of China and Southeast Asia, but some elements for instability exist that will require greater cooperation between both parties to surmount them together.

II. Development of Relations Between China and Southeast Asia

China and Southeast Asia will further strengthen cooperation during the 1990's. This is because as developing countries, China and Southeast Asia have to forge strong links in the north-south relationship. In mutual economic relations, they must also improve coordination,

helping supply one another's needs and decreasing conflicts. Both China and Southeast Asia must concentrate their energies on development of the economy, and both must safeguard regional peace and tranquility. Mutual support is needed in these regards.

In order to advance friendly, cooperative relations between China and southeast Asia, when Chinese Premier Li Peng visited Thailand in November 1988, he announced the **four principles for China's development of relations with each of the ASEAN nations**. These were: first, strict adherence to the five principles for peaceful co-existence in state relations; second, adherence to the principle of opposition to hegemonism under all circumstances; third, adherence to the principles of equality and mutual benefit, and mutual development of economic relations; and fourth, adherence to the principle of independence and sovereignty, mutual respect, close cooperation, and mutual support in international affairs.

ASEAN also responded positively to China, including supporting China's entry into regional economic cooperation, and welcoming China to become a country having a dialogue with ASEAN. One might say that political obstacles to the development of relations between ASEAN and China have largely been cleared away.

What specific actions should now be taken to increase China's cooperation with Southeast Asia?

In the economic field, since overall close regional cooperation in Asia and the Pacific has not made much progress for a time, a comparatively feasible action is strengthening of bilateral or secondary regional cooperation first, followed by a gradual spread to a larger range. Actions should be taken that gradually move from the partial to the whole, from the bilateral to the multilateral, and from a low-level form to a high-level form. It must be realized that, economically, China and Southeast Asia are quite complementary in the following main ways: China can become a larger market for southeast Asian countries' industrial raw materials; there is the possibility for mutual exchanges, from primary products to high technology products; broad prospects exist for the mutual transfer of applied technology; and the two complement each other rather well in agricultural products. These are all a basis for developing an interflow between the two. Although the possibility of competition exists in the export of labor-intensive products, and in the attraction of capital and technology, this can be ironed out. Economic readjustments by both parties will help iron it out. Furthermore, China's economic development is primarily for internal needs; it will not compete seriously with ASEAN.

In the area of security cooperation, it is also necessary to proceed gradually, step by step. Right now it is necessary to **solve hot spot problems first**, jointly promoting an early conclusion to the Cambodian war, bringing about a completely just and rational solution to the Cambodian problem. Solution to other bilateral disputes should be sought through direct dialogue and negotiations between the countries concerned.

The Spratly Islands problem is an issue of general concern. This archipelago has belonged to China since ancient times, but beginning in the 1970's, some islets began to be occupied by other countries. China has always advocated solution to territorial disputes through political negotiations rather than appeals to arms. China has already reached agreement on border problems through negotiations with most neighboring countries. Negotiations continue to be conducted patiently in a fine atmosphere on border issues about which agreement has yet to be reached. China will also take the same stand with regard to the Spratly issue. On 28 March 1991 Foreign Minister Qian Qichen said that "while China holds sovereignty over the Spratly Islands, we are willing to discuss joint development of the Spratly Islands with other countries concerned." We believe that through patient negotiations, the Spratly Islands problem will ultimately be reasonably and peacefully solved.

Nowadays numerous countries are talking about the establishment of a new order to safeguard world peace and stability. We believe that the new international order must be entirely different from the old order, based as it was on power politics. This is because history has demonstrated, and will continue to demonstrate, that power politics runs against the tide of history and is doomed to failure. Only when international society universally abides by acknowledged standards for international relations will the world be able to have a fine order, and only then can peace and development be guaranteed. The five principles that China has jointly proposed with India and Burma—of mutual respect for sovereignty and territorial integrity, mutual non-aggression, mutual non-interference in domestic politics, equality and mutual benefit, and peaceful co-existence—encapsulate the most fundamental standards for international relations. They have increasingly received the support of international society, and they may serve as a foundation for the building of a new international order. The African-Asian Conference held in Bandung in April 1955 proposed 10 principles, which were an extension and development of the five principles. The spirit of the two is completely identical. During the 1990's, China must further develop bilateral relations with the countries of southeast Asia on the basis of the five principles and the 10 principles. This will not only benefit the security and the development of both, but will also make a contribution to Asia-Pacific as well as world peace.

CPC Mainstay in Opposing Peaceful Evolution

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[Article by Wu Xiongcheng (0702 7160 0015) in an official journal of the Beijing Municipal Committee of the Communist Party of China: "The Chinese Communist Party Is the Mainstay Opposition to Peaceful Evolution"]

[Text] In recent years, hostile Western powers have launched a total "peaceful evolution" offensive against socialist countries. Some socialist countries have successively renounced socialism. Yet China, with a population of 1.1 billion, has, under the leadership of the Communist Party of China [CPC], stood up against the adverse current at home and abroad. It is unswervingly advancing on the road to socialism with Chinese characteristics. The CPC has proven itself to be the mainstay opposition to "peaceful evolution." Undoubtedly today there is great practical significance in reviewing the CPC's historical experience in opposing "peaceful evolution."

I

From the first, Comrade Mao Zedong and veteran proletariat revolutionaries took the issue of maintaining political power after obtaining it very seriously. Guo Moruo's *Commemoration of the 300th Anniversary of the 1644 Rebellion*, published in 1944 for the entire party to study, pointed out the historical fact that after Li Zicheng's peasant army entered Beijing, the corrupt lifestyle of the leadership and the internal intrigue that led to their historic defeat should be taken as a warning. In March 1949 the Second Plenary Session of the Seventh CPC Central Committee warned to be on guard against a surprise attack with "sugar-coated bullets" and appealed for the absolute necessity of maintaining a lifestyle of modesty, prudence, and arduous struggle, being neither arrogant nor rash. In the early post-liberation period, the party launched the "three antis" movement, punished corruption and waste, and opposed bureaucracy. All of these measures were to guard against corruption and degenerate behavior within the party, persevere in the aim of wholeheartedly serving the people, and maintain their distinctive qualities as communists to keep the socialist regime from changing its nature.

Comrade Mao Zedong was the first person in a socialist country to keenly perceive the Western nations' strategy of promoting "peaceful evolution" and to call for heightened vigilance and the adoption of a series of measures to resist and guard against it. As early as August 1949, he exposed and criticized U.S. Secretary of State Acheson's hope that "democratic individuals" within would attempt to overthrow the socialist system about to be established on the Chinese mainland. After Dulles proposed the "peaceful evolution" strategy, he immediately grasped that this was a life-or-death issue for socialist nations. He first instructed the party's high-ranking

cadres, and then the whole party and the whole nation. With great foresight, he raised some important observations and proposed some important measures. For example, as long as there are imperialist nations, they will not cease to vainly conspire to subvert socialist nations, and the danger of "peaceful evolution" will always remain. The imperialists place their hopes for "peaceful evolution" on our third and fourth generations. We do not know if these words are accurate or not. We hope that they are not accurate, but they could be accurate. Whether the imperialists' "peaceful evolution" succeeds or not will be determined to a very great extent by internal factors and by leaders in socialist nations. The leadership group is very important. If the leaders change, the complexion of the whole nation can change. Also, to guarantee that the Communist Party and the country do not change complexion, not only are the correct line and policy necessary, but it also is necessary to nurture and train a billion successors for the proletarian revolutionary cause. We must uphold the people's democratic dictatorship, correctly distinguish and handle the two kinds of socialist contradictions, and persist in the mass line. We must take ideology seriously and engage in widespread and repeated socialist education in the city and in the countryside, and guard against any staff members' using their authority for any kind of special privileges, and we absolutely cannot implement a system of high salaries for the few. We must insist that the cadres participate in the collective productive labor system, and the people's armed forces and public security organs must always be placed under the leadership of the Communist Party and the people's mass supervision.

Comrade Mao Zedong combined anti-corruption, anti decadence, and anti-evolution into a total and complete set of theoretical observations and a strategic ideology that permeated every aspect of political, economic, ideological and cultural, national defense, and party construction, as well as specific tasks and social life. In the historical development of socialism, this always takes the lead both in theory and practice and its historical contribution and real value should not be underestimated.

Since the Third Plenary Session of the 11th CPC Central Committee, the Communist Party has reestablished the ideological line of seeking truth from facts. Also, in conformity with the actual situation, it has properly evaluated Comrade Mao Zedong's merits and faults, made it clear that Mao Zedong Thought still is the guiding ideology for our present and future activities, and emphasized the necessity of upholding and developing Mao Zedong Thought. Comrade Deng Xiaoping pointed out, "In many respects, we are now doing what Comrade Mao Zedong proposed but did not accomplish; correcting the mistakes that he opposed and finishing the things that he did not finish. We will be doing this for a rather long time to come. Certainly, we also have grown and we will continue to grow." Upholding and developing socialism and opposing peaceful evolution are also part of this.

Comrade Deng Xiaoping has consistently stressed upholding the four cardinal principles and opposing bourgeois liberalism, and has emphasized that China can only take the socialist road and absolutely cannot take the Western capitalist road. He has pointed out that we must "respond to those people who hope that we will become capitalist" and we must "teach the next generation, and the generation after that, that the reason we uphold socialism and communism and adopt various policies is to develop socialism and to realize communism in the future." As long as there is class warfare and imperialist hegemonism, we must apply socialist policies in the vigorous state apparatus to safeguard and buildup socialism. If we do not do a good job of this, "our party and our country will indeed realize that it is no idle threat that they might 'change their appearance.'" In the last decade or so, Comrade Deng Xiaoping, in reviewing foreign and domestic positive and negative experiences, has often stressed the following points:

1. Recognize the objective existence of class warfare, and that the people's democratic dictatorship cannot be abandoned or weakened. That class warfare exists to a certain extent in socialist society should neither be minimized nor exaggerated. Although it is not the same as historical class warfare, we certainly cannot deny its existence. If we deny it, we will make a serious mistake. As regards those people who oppose socialism and sabotage its development, "we must have dictatorial methods. Dictatorial methods must not only be preached, but must be used when necessary. Certainly, when they are used, they must be used prudently."

2. The reform and opening up policy will not change for a long time, but reform and opening up cannot be divorced from the four cardinal principles. These two fundamental points cannot change. The goal of reform and opening up is to develop and perfect socialism. Our economic reform must uphold the two principles of taking public ownership as the focus and achieving common prosperity. We stress democracy, but we cannot indiscriminately apply capitalist democracy; we cannot engage in the "tripartite balance of power." China must modernize, but we absolutely cannot engage in liberalism and we absolutely cannot follow the Western capitalist road. "Our socialist state apparatus is strong. Any time that a deviation from socialist orientation is discovered, the state apparatus can personally intervene and correct it."

3. Infiltration of influences from capitalist thinking is unavoidable and we must stay alert and resolutely resist and struggle. Carrying out a policy of opening up to the outside certainly can involve some decadent capitalist things. We are aware of this problem. Thus we cannot relax in the slightest, or neglect criticism of capitalist thinking. We must further develop socialist spiritual civilization and instruct people throughout the nation that on an ideal, ethical, cultured, and disciplined ideological front there cannot be spiritual pollution. We cannot blindly introduce Western capitalist culture. And we certainly cannot blindly praise it and let several

harmful, moribund, and decadent things from capitalist culture swarm in and corrupt our youth unimpeded, without analysis or criticism. "If we do not give it prompt attention and adopt firm measures to stop it, but let it spread freely and unchecked, it could cause even more people to follow these evil ways, and the consequences could be extremely serious. From a long-term perspective, this issue concerns how the next generation takes up the cause and concerns the destiny and the future of the party and the nation."

4. Strengthen the party itself, rectify party organization, and correct party style, and carry on the party's fine tradition, beginning with its high-ranking cadres. In November 1979, Comrade Deng Xiaoping made a report to a meeting of cadres who were deputy department heads or higher in central party, government, and military organs. From the high plane of the party's and the country's generations of major programs, and with sincere words and honest wishes, he spoke on the three issues of treatment of high-ranking cadres, conscientious selection and promotion of successors, and earnest concern for the lives of the masses. In September 1985, at the national party congress, Comrade Deng Xiaoping again spoke on the issue of replacing old cadres with new ones, and brought up with old and new cadres throughout the party the need "to study and grasp basic Marxist theory in the light of new realities," and thereby improve the principles, systemization, foresight, and creativity of our work. He has often stressed the necessity of improving and perfecting party leadership.

5. We persist in maintaining an independent foreign policy with the initiative in our own hands, and persist in opening up to the outside, but we certainly are not dependent on Western capitalist nations. The goal of China's foreign policy is to strive for world peace and, by means of our wholehearted modernization, to create a favorable diplomatic environment. "The Chinese people treasure friendship and cooperation with other nations and peoples, but treasure even more their own rights to independence and self-determination won through a long period of struggle. No foreign nation should expect China to be its vassal or that China will swallow the bitter fruit of damage to Chinese interests."

Comrade Deng Xiaoping's basic theoretical perspective on opposing peaceful evolution is, under new historical conditions, to adhere to and develop Comrade Mao Zedong's anti-peaceful evolution thinking as an important guide in our party's struggle against peaceful evolution.

After the political disturbance of the spring and summer of 1989, CPC understanding of this issue reached a new level. The CPC convened the fourth through the seventh plenary sessions of the 13th Central Committee, and repeatedly pointed out and emphasized the objective presence of coexistence and the struggle between the socialist and the capitalist social systems in the international realm. Reactionary international forces have

never renounced their essentially antagonistic and subversive stand toward the socialist system. The struggle between infiltration and anti-infiltration, subversion and anti-subversion, and peaceful evolution and anti-peaceful evolution is complicated and will go on for a long time, and we must maintain a high degree of vigilance. Comrade Jiang Zemin has pointed out, "In handling foreign affairs, we must emphasize both economics and politics; both friendship and struggle; and both principles and strategy. This is the 'two point theory' in diplomacy." We cannot give up our alertness to peaceful evolution from Western countries, because of the peaceful coexistence of the two social systems, nor can we refuse to associate and cooperate with them, because imperialists are bent on subjugating socialism, and we certainly cannot let this influence our reform and opening up policy. In recent years, in the face of external pressure and internal difficulty, we have maintained social and political stability and achieved new progress and accumulations economically while persisting in reform and opening up and upholding the socialist orientation; and we have had valuable experience in using the peaceful international environment to intensify our own development and growth, while alertly resisting peaceful evolution schemes. This has had a profound influence and an important practical significance not only for the growth of Chinese socialism and the vitalization of the Chinese people, but also for the growth of international socialism.

II

How do we prevent peaceful evolution once and for all? As far as external causes are concerned, we should finally complete the great historical mission of the proletariat and replace capitalism with socialism throughout the world. This will require a great deal of time, and it is not something that one nation can do. As far as internal causes are concerned, it is important to do a good job with our own party and state affairs. It is also important to adopt positive measures and countermeasures ideologically, politically, and organizationally to uphold and develop socialism and form a totally realistic and feasible anti-peaceful evolution strategy, which should mainly include the following strategic measures:

1. Pay a great deal of attention to building up the ruling party and uphold and improve party leadership in the socialist cause. Communist Party leadership is essential to realize socialism, and we cannot at any time waver in upholding the party's leadership. There is certainly no reason to deny the party's leadership just because the party has made mistakes in leading the nation. To uphold the party's leadership we must improve the party's leadership, enhance the party's own development, and unswervingly apply principles of Marxist, Leninist, Mao Zedong Thought for developing the party and strictly governing the party. We must persist in the political line of combining fundamental Marxist-Leninist principles with the Chinese reality and resist the corrosion of democratic socialist thinking. We must ensure that leadership at every level, especially in the

upper echelon and key departments, is firmly in the hands of true Marxists, and be alert for the appearance of political opportunists and liberals in the upper echelon. We must maintain the working class as the vanguard of the party and persist in the basic goal of wholeheartedly serving the people and strengthening the flesh-and-blood ties between the party and the masses. We must maintain the party's organizational purity and persist in democratic centralism, not permitting factionalism in the party. We must establish and perfect the democratic and supervisory systems in the party and persist in initiating criticism and self-criticism, not engage in one-person rule or personality cults, and firmly and unshakably oppose corruption and special privileges.

2. Formulate correct strategic policies to develop society and the economy and do a good, sound job with the economy. If the economy develops well, economic strength and overall national strength can be constantly increased, and the material and cultural life of the people will be gradually improved. These are the essential conditions for guaranteeing the stable development of a socialist country. If we have them, we can better unite the people to guard against various political disturbances and thoroughly increase the power to resist peaceful evolution. If the economy is not good and the people do not receive material benefits, no one will listen when we speak, and many things will be difficult to do. We must conscientiously draw lessons and overcome repeated occurrences of the erroneous tendency to be impatient for success. We must firmly establish and sustain a guiding ideology of stable, coordinated development, and truly convert the economic concentration to overall balance, structural rationalization, and improved efficiency. In the next 10 years, we must unite with one heart and one mind in the struggle to realize the second-stage strategic goals.

3. Closely integrate upholding the four cardinal principles with persisting in reform and opening up, and clearly distinguish the two concepts of reform. It will not do to develop socialism without reform and opening up, nor will it do to conduct reform and opening up without persisting in the socialist orientation. Only by persisting in reform and opening up can we constantly improve and develop the socialist system, overcome the abuses in the original system, absorb the excellent civilized achievements created by all mankind, including capitalist society, and accelerate socialist modernization and promote rapid development of productive forces and total improvement of society. Otherwise, ossification of the system can impede the development of productive forces, and if the economy does not go up, it will be difficult to have political stability and the people cannot be satisfied. But reform and opening up cannot diverge from the socialist orientation, and they cannot restructure themselves after a western model and follow economic privatization and marketization and multiparty parliamentary democracy, ideological pluralism, and westernization politically. If we engage in "across-the-board westernization" that is, capitalization, it will

inevitably place reform and opening up in a predicament and cause social upheaval, with the country and the people insecure. It would spell the end of the achievements already attained by socialist revolution and development.

4. Uphold the people's democratic dictatorship with democracy for the people and dictatorship for the enemy, adeptly distinguishing and correctly handling the two different kinds of contradictions. People's democratic dictatorship contains democratic and dictatorial aspects, and we must integrate the historical experiences and lesson of both and uphold and perfect them. In one respect, to counter the inadequacies and errors of past democratic development, we should correct the problem of the ruling party taking care of everything and the arbitrary action of individual leaders. We must realistically develop socialist democracy and a sound socialist system and fully realize the people's power as masters of their own houses and stimulate enthusiasm and a feeling of responsibility on the part of the masters. In developing socialist democracy, we must clearly distinguish it from capitalist democracy, and at the same time, resist tendencies toward extreme forms of democracy and anarchy. In another respect, we must not overlook the objective fact that class warfare will remain to a certain extent for a long time, and under the proper conditions can be intensified, and the dictatorial functions of the socialist state will need to be carried out. We absolutely cannot yield to, condone, or make compromises with forces hostile to communism and socialism or with opposition factions organized in violation of the constitution and party discipline. We cannot permit them to be legalized, nor can we permit them to advocate "depoliticized" or "nonparty" armed forces, public security, procuratorate, judicial, or safety sectors. We must increase our vigilance and persevere in the struggle to check erroneous ideas at the outset and nip turbulent and unstable elements in the bud. We absolutely cannot allow them to spread. We must learn how to distinguish the two different kinds of contradictions and correctly handle contradictions among the people. We absolutely should not be softhearted toward the enemy, but we should cherish and respect the people. We must by all

means avoid confusing the nature of the contradiction and we absolutely cannot treat people who are dissatisfied with party and government activities and bring up incisive criticism as political enemies.

5. We must remain steadfast ideologically and politically, and we must improve our work in the ideological sphere. China's political disturbances in 1989 and the evolutions and upheavals in some countries were the result of not struggling forcefully in the ideological sphere to curb Western infiltration and the rampant spread of liberal thinking. This was manifested by weakness and making concessions, and even by conniving with and supporting this. That type of public opinion that, led by openness and democratization, renounces ideology and allows anti-party, anti-socialist opinions to be disseminated, and even allows self-vilification or allowing others to control oneself absolutely cannot be repeated. Marxism and socialism must occupy the ideological position, and we must enhance political and ideological education and improve propaganda, guard against public opinion getting out of control, and put forth a great effort to thoroughly master ideological education of young people. We must unremittingly criticize bourgeois liberalism and every type of erroneous and harmful academic or theoretical viewpoint, and resist the corrosion of bourgeois politics, ideology, culture, and decadent lifestyles. While continuing to implement the policy of "letting a hundred flowers bloom and a hundred schools of thought contend" and continuing to develop science and education, we must persist in the orientation of serving the people and serving socialism and insist on a leading position for Marxism, Leninism, and Mao Zedong Thought. We must thoroughly absorb the lessons of "being firm on the one hand and lenient on the other" from a few years ago, and while striving to develop the material civilization, effectively master the spiritual civilization.

In summation, we need only conscientiously review our historical experience and, by doing a good job with party and state affairs, we will certainly be able to foil the "peaceful evolution" strategy pursued by hostile foreign and domestic forces, and socialist China will certainly always stand rock solid in the East.

NATIONAL AFFAIRS, POLICY**Analysis of Enterprises' Efficiency**

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[Article by Xiang Jingquan (7309 6975 3123) and Huang Zhongfa (7806 0022 4099); "Respect Economic Principles, Improve Economic Benefits; Analysis of Economic Benefits in Chinese Enterprises, Suggestions"]

[Text] For a long time, China's state-run enterprises have had a serious problem with inferior products, waste, and inefficiency. The question of how to improve China's economic benefits is still a major issue. This article offers some opinions on the matter.

I. What are economic benefits?

There are differing viewpoints regarding what economic benefits are.

One viewpoint holds that production output and economic benefits are one and the same. The concept of economic benefits is described as the quantity of products, material output, and economic interest generated through economic activity. Within the framework of this concept, the various measures of total economic activity (total social output value, gross national product, and total national income and production) are taken as the indicators of economic health. Some comrades even regard the amount of wages, bonuses, sanitation fees, park and greenery maintenance fees, and sewage fees as an indicator of economic benefits. Because these indicators rise every year, it is concluded that economic benefits are very good. This way of thinking is unscientific, because economic benefits are, first of all, relative; you cannot concentrate solely on output while ignoring inputs. For example, suppose work unit A produces 15 product units while work unit B produces 10 units. You cannot simply state that economic benefits at work unit A are better; you must consider the inputs of the two work units. It is clear that only by comparing inputs and output can one arrive at the correct conclusion.

A second viewpoint holds that economic benefits are the benefits and interests generated by economic activities, and that the size of the economic benefit depends on the degree to which such economic activities satisfy social needs. Since the beginning of reform and opening up, production has been developing continuously, the supply of commodities has been increasing, and standards of living have been improving, so it is concluded that economic benefits are good. This viewpoint is not scientific, either, because expenditures and consumption are not taken into account. According to this viewpoint, the payment of wages brings corresponding economic benefits, regardless of the cost. This viewpoint could even be understood to argue that the economic benefit from the production of a half kilo of cloth is the same whether 5 or 10 yuan are spent in the process, because the same social need is satisfied either way. This is clearly wrong.

The third viewpoint holds that economic benefits are equivalent to an enterprise's total profits, and that the greater the profits, the better the economic benefits, and vice-versa. Not only is this viewpoint the same as the one just described (because expenditures and consumption are not taken into account), but it also regards profits gained as a result of exorbitant price hikes as economic benefits.

The fourth viewpoint holds that economic benefits are determined by comparing inputs with output. It establishes a link between what is consumed and what is obtained by attempting, within a given period of time, to manufacture the maximum quantity of products capable of satisfying social demand while expending the smallest possible amount of labor and materials. We feel that this viewpoint is the correct one, and that it describes the fundamental nature of economic benefits.

It must also be stated at this point that in order to achieve a scientific understanding of the fundamental nature of economic benefits, one must have a firm grasp of a few points. First, economic benefits are an objective reality. They are the fruits obtained by using a given quantity of labor resources within a given period of time; anything other than the fruits of labor cannot be called economic benefits. Second, the idea of economic benefits is a relative concept involving a comparison between labor inputs and the output of said labor; when inputs are low and output high, economic benefits are good, and vice-versa. Third, economic benefits can only be generated by improving labor productivity and product quality, and by lowering labor expenditure and costs per product unit. It is no good to rely on price hikes to increase profits. Fourth, the idea of economic benefits is a social concept; it is necessary to use the fewest possible inputs to obtain the greatest possible amount of products capable of satisfying social needs. It is not a simple matter of "the greater the output, the better," because low quality products which do not satisfy social needs are not of any great value and generate no economic benefit.

II. Analysis of Economic Benefits in China in Recent Years

Since the beginning of reform, China has carried out a series of readjustments and reforms in systems and policies in order to improve the economic benefits of enterprises. A series of tax cuts intended to revitalize enterprises have been adopted. In order to improve the economic benefits of enterprises, a number of favorable conditions have been created, and enterprise economic benefits rose steadily for a time. From an overall perspective, however, the problem of low economic benefits in China has not been fundamentally eradicated. Particularly since 1984, enterprise economic benefits have been far from ideal, and have even fallen in some cases. Using industrial enterprises as a primary example, we intend here to illustrate the situation by examining the changes in the following indicators:

1. The material consumption rate has risen. The material consumption rate in the industrial sector rose from 67.4 percent in 1985 to 71.7 percent in 1989. This means that over 100 billion more yuan worth of materials will now be consumed over the course of a year than in 1985. It is worth noting that most of several production-oriented consumption indicators for industrial enterprises have risen. Total coke consumption in the metallurgy sector rose from 568 kilos per ton in 1985 to 610 k/t in 1989. Power generation/consumption at power plants rose from 6.42 to 6.81 percent. Enterprises involved in the extraction of petroleum in 1989 consumed 1.82 percent of their own product, up from 1.52 percent. Power consumed in the processing of crude oil increased from 41.86 kWh/t to 45.6 kWh/t. Total power consumption in coal mining increased from 37.29 to 38.96 kWh/t. In mechanized steel furnaces, consumption of metal stock and coke increased from 120.7 to 124.7 k/t. In the cement sector, total power consumption increased from 130.93 to 168.67 kWh/t. In the textiles sector, power consumed in the process of cotton yarn production increased from 1,983 kilowatt-hours per ton to 2,042 kWh/t.

2. The input/output ratio for funds has fallen. First, the profit rate on funds fell from 22.4 percent in 1985 to 18.24 percent in 1989. Second, the profit rate on sales for state-run enterprises fell from 24.6 percent in 1984 to 17.88 percent in 1989, and then to 13.45 percent in 1990. Third, the profit rate on funds for state-run industrial enterprises has fallen continuously, dropping from 25.1 percent in 1984 to 19.4 percent in 1989 and 13.76 percent in 1990. Fourth, the ratio of net output value to funds for state-run industrial enterprises fell from 37.83 yuan/100 yuan in 1981-85 to 34.87 yuan in 1985-88, a drop of 1.96 yuan/100 yuan, and a total annual decline of about 16 billion yuan. Net material output value fell from 49.25 yuan in 1984 to 42.45 yuan in 1988, a drop of about 18 billion yuan per year. Fifth, the profit rate on funds has fallen continuously, dropping in state-run enterprises from 15 percent in 1984 to 10.5 percent in 1988. Each percentage point decrease represents a drop in profits of 10 billion yuan.

3. Comparable costs have risen sharply. The impact of rising material consumption rates, increased prices for raw and semifinished materials, and other factors have caused comparable costs at state-run industrial enterprises to rise every year over the past few years, jumping 7.5 percent in 1985, 7.4 percent in 1986, 15.5 percent in 1988, 22.4 percent in 1989, and 7 percent in 1990.

4. The ratio between fixed asset investments and the value of new fixed assets brought on line has fallen; these assets are tying up too much operating capital, and the problem is growing. In industrial enterprises, this ratio fell from 86.6 percent in 1981 to 79.1 percent in 1986 and 73.5 percent in 1989. The investment coefficient (the investment required per unit of increased gross national product) also increased from 1.59 in 1984 to 3.09 in 1988. A relatively large amount of equipment in enterprises lies idle, and the percentage of productive

capacity being used is not high. The value of idle equipment at industrial enterprises currently stands at more than 25 billion yuan, and 40 percent of productive capacity is not in use. In 1989, the amount of operating capital expended per 100 yuan of sales income stood at 31.9 yuan, which was 3.7 yuan more than in 1985; the total amount of operating funds thus tied up was more than 30 billion yuan.

5. Product quality has declined precipitously. Random checks by relevant state organs have shown that only about 76 to 80 percent of Chinese products are steadily improving in quality. In the last half of 1989, when the state performed a random check of 1761 products in 45 categories from 1158 enterprises, only 73.9 percent were up to standard.

6. A large percentage of enterprises are losing money, and the size of losses is growing rapidly. Relevant figures indicate that 10.7 percent of industrial enterprises within the state plan were losing money in 1984, but this figure had risen to 12.2 percent in 1988, 16 percent in 1989, and 33 percent in 1990. The size of the losses has grown at an average annual rate of 15 percent or more, reaching 13.66 billion yuan, or five times the figure for 1984.

7. Labor productivity indicators have fallen. Annual production among petroleum and refinery workers fell from 928 tons per person in 1985 to 881 tons/person in 1989. The same figure fell from 1466 tons/person for blast furnace workers to 712 tons/person, from 192 tons/person among synthetic ammonia workers to 178 tons/person, from 200 crates per person among cigarette rollers to 195.4 crates/person, and from 19.82 tons/person among paper mill workers to 18.83 tons/person.

8. Poor enterprise economic benefits are inhibiting China's economic development. The worrisome thing is that in recent years economic benefits have fallen across the board in China's large- and medium-sized state-run enterprises. A study of large- and medium-sized state-run enterprises carried out early this year in Beijing, Shanghai, Tianjin, Guangzhou, and Shenzhen showed that local large- and medium-sized state-run enterprises in these five large municipalities in 1990 have experienced sharp declines in economic benefits. In comparison with 1989, total enterprise profits dropped 40.4 percent in Beijing, 16.7 percent in Shanghai, 36.2 percent in Tianjin, and 39.6 percent in Guangzhou. In Shenyang net losses amounted to 190 million yuan. Half of all firms in Shenzhen suffered losses, while this figure stood at 58 percent in Guangzhou, 25.5 percent in Tianjin, 24.1 percent in Beijing, and 13.4 percent in Shanghai. The size of the losses multiplied several fold, jumping by a factor of 8.7 in Beijing, 14.3 in Shanghai, 4.2 in Shenyang, 1.3 in Guangzhou, and 0.9 in Tianjin.

III. The Causes of Falling Enterprise Economic Benefits

What is causing enterprise economic benefits to decline?

On the surface of it, there appear to be three causes. First, a market slump which appeared in the latter half of 1989 has crimped commodity sales and caused inventories to pile up. On the one hand, this has tied up great quantities of operating funds, slowed down their circulation rate, and directly affected the benefits accruing to enterprises through the use of such funds. Furthermore, decreased product sales have directly affected the total profits of enterprises. Second, rising prices for raw and semifinished materials have led directly to increased product costs, and have affected enterprise economic benefits. Although enterprises are expected to absorb the impact of rising prices, in reality their capacity to do so is limited by the current level of their technology and other factors. In particular, nearly 40 percent of enterprise productive capacity has lain idle in recent years, which has further weakened their ability to absorb the impact of rising prices. Rising prices for raw and semifinished materials can only increase costs and cut down enterprise profits. Third, enterprise management in recent years has been chaotic, and personnel quality is not high, which has directly affected the ability of enterprises to increase economic benefits. Particularly in the implementation of the enterprise contract system, the role of the contractor in taking over enterprise operations has been overemphasized, while the government's regulatory role has been neglected. The idea that with contractors in charge, the government need not exercise regulation has become ubiquitous. This problem was not so apparent when the economy was overheated, but with the economy having cooled down, markets in a slump, and production declining, the problem has come increasingly to the fore. Because we have not vigorously pursued regulatory work, some aspects of the contracting system and of internal enterprise bylaws have not been conscientiously implemented. As a result, enterprise personnel have become lackadaisical and less enthusiastic. Some say that enterprises face not only a "market slump" but a "spiritual slump" as well. Lax regulation has inevitably led to an increase in the percentage of rejected products, a decline in quality, increased costs, and decreased economic benefits.

Further analysis reveals underlying causes of declining economic benefits in China's enterprises.

1. There has been a tendency since the Great Leap Forward of 1958 in economic work to emphasize speedy development and neglect benefits. Although increased attention was paid to improving economic benefits for a time (particularly the early 1980's) following the Third Plenary Session of the 11th Central Committee, people later again rushed blindly after quick growth while ignoring the issue of economic benefits. Eagerness to "grow several fold" reappeared, causing economic overheating to grow worse and worse. The quest for high output value and rapid growth swept the nation like a cyclone; total output value and its growth rate became the main indices by which to measure the development of production in individual localities, economic sectors, and enterprises, as well as the effectiveness of cadres in

government organs at all levels. The result was that government organs and enterprises from the central government down to the local level all engaged in a single-minded, mistaken pursuit of high output value, which steadily ground down the economy. From 1984 through 1988, fixed asset investments for the entire society rose at an average annual rate of 25.7 percent. The monetary income of urban residents rose at an average annual rate of 24 percent, which far outpaced the 12 percent average increase in national income over the same period. During those same years, profits per 100 yuan of income in state-run industrial enterprises fell 6.1 percentage points, and it is estimated that total profits were reduced by about 50 billion yuan per year.

2. The loss of macroeconomic control and a blind rush into construction projects took away what had been a good overall environment for the development of enterprise production. Anxiety for quick success caused rapid expansion of demand for social production and construction. Total social demand and supply became sharply imbalanced. Shortages of energy resources as well as raw and semifinished materials grew worse and worse. Enterprise production and construction went into a chronic state of closing down one day and starting up the next, and starting up only to find the necessary materials unavailable. Due to anxiety for quick success, many capital construction projects were started up hastily without carrying out scientific feasibility studies, resulting in redundant construction and poor utilization of productive capacity (even to the point where most equipment stands idle). The inevitable consequence has been declining economic benefits. According to a study by the relevant departments which tracked the performance of 56 large- and medium-sized capital investment projects which were completed went into service in 1988, less than 70 percent of productive capacity was being used in two-thirds of the projects, and money was being lost in nearly one-third of the projects after they went into service. Under such circumstances, not only is it impossible to recover the cost of the investment, but the burden of unprofitable operations must be dealt with; high economic benefits are out of the question.

3. Economic structure has become imbalanced. First, equilibrium between industry and agriculture has been lost. It is generally believed, on the basis of experience abroad as well as conditions in China, that ratio between the average annual growth rates of agriculture and industry should fall between 1:2 and 1:2.5, but from 1985 through 1988 it was actually 1:5.3. The result was that industry had problems securing sufficient agricultural raw and semifinished materials; prices rose time and again. Agriculture was unable to support industrial development, and the economic benefits of industrial enterprises declined further. Second, within industry, disequilibrium arose between basic and processing industries. Supplies of energy resources, transportation resources, and raw and semifinished materials were insufficient to meet demand from the oversized processing sector. It has been calculated that shortages of

energy resources and raw and semifinished materials have caused about 40 percent of the country's industrial productive capacity to lie idle, which represents 400 billion fewer yuan in output value and 50 billion fewer yuan in profits and taxes remitted to the state. Ministry of Railway statistics indicate that mining enterprises throughout China apply to have freight loaded on an average of 120,000 cars per year, but they have only been able to load an average of 73,000 cars; 40 percent of their goods have been undeliverable. Third, investment structure has become imbalanced, construction cycles have lengthened, and economies of scale have declined. In the past few years, investments in a few hot-selling items such as color televisions and refrigerators have skyrocketed while the percentage of investments directed to basic industries such as agriculture has fallen. Investment structure has become weighted toward light industry and small enterprises, and is becoming excessively concentrated on a small number of popular items. Furthermore, investment volume is out of control and construction cycles have lengthened, with the inevitable result that economic benefits have fallen. Fourth, small enterprises have developed too much in recent years, shifting the center of gravity toward smaller enterprises and affecting ability to improve economic benefits. From 1985 through 1987, the total number of industrial enterprises in China went from 5,185,000 to 5,474,100, while the proportion of these enterprises classified as large- and medium-sized declined from 0.15 to 0.13 percent.

4. Systems are imperfect and mechanisms are unsound. Although economic reform has attained great success and played a beneficial role in improving enterprise economic benefits, there are also certain shortcomings. In particular, the reforms have not acted in a timely manner to link together efforts to establish mechanisms to encourage enterprise development with efforts to establish mechanisms which force enterprises to assume the responsibility of risks and to exercise self-discipline. This shortcoming has touched off various types of short-term behavior among enterprises. In order to maximize short-term income, enterprises are pressing equipment to the limit, driving up consumption, eating up existing capital, and giving the appearance of making profits while actually incurring losses.

5. Enterprise technology is backward. A survey of key industrial enterprises throughout the country reveals that of all the production equipment at these enterprises in 1985, 13 percent was on a par with international standards, 22 percent was up to advanced domestic standards, 47 percent was on a par with average domestic technology, and 18 percent was backward by domestic standards. This means that about two-thirds of all industrial equipment in China is of average or backward technology. There is urgent need to rectify this situation. The low level of technology has prevented net output value among workers and staff in China's manufacturing industries from reaching one-half of that in middle income countries, and productivity is only a

small percentage of that in developed countries. It is worth noting that in order to accelerate technological progress, China has imported large quantities of advanced foreign technology since 1979, but its utilization rate is very low. Of the technology imported by China's machine building and electronics sector, only 14.1 percent has been upgraded or used for secondary development, while the other 85.9 percent has remained unchanged.

Summing up the preceding points, economic benefits in China's enterprises are not good, and in the final analysis this is the inevitable result of the failure to observe objective economic laws in carrying out economic work.

IV. Suggestions for Improving Economic Benefits

We raise the following opinions and suggestions for improving economic benefits:

1. Improving economic benefits must be made the top priority of our economic work.

Poor economic benefits are the key factor preventing China's revenue situation from improving. Because we have suffered in the past for having overemphasized rapid development and neglected benefits, in the future we must rectify the situation by making it the top priority of our economic work to improve economic benefits so that China can embark upon a path of low investments, high output, high quality, and high economic benefits.

In terms of macroeconomic policy, we must take indices of improving economic benefits as the main bases of our policy decisions, and discontinue the erroneous tendency to base such decisions upon an effort to increase output value and accelerate development. In terms of the formulation and enforcement of the plan, when we promulgate plans to be enforced, issue reports on the state on the economy, and evaluate cadre performance, we must give primary consideration to the state of economic benefits. With respect to enterprises, we should establish an economic benefit responsibility system. All wage increases and promotions for workers and staff should be linked to economic benefit indicators. Only after a strong climate of concern for economic benefits has been created from top to bottom in all areas of our economic work, and people have begun consciously seeking to improve economic benefits will truly positive results be attained.

2. We must act in accordance with economic laws as we seek economic development and implement economic reform.

To improve economic benefits, we must observe the demands of objective economic laws in our economic work. Above all, we must conform to the objective demand for a proper match between the relations of production and the productive forces, and a proper match between the superstructure and the economic base. Although China's productive forces are unevenly

developed, and in many ways outdated, they are, when all is said and done, large-scale socialized production, and they are the economic base which we have built up through decades of struggle. This is the fundamental source of our superiority over capitalism. By consolidating and developing socialized large-scale production and the socialist economic base, we can avoid the economic crises and waste of resources which characterize capitalism, and we can create macroeconomic benefits exceeding those achieved by capitalism. The purpose of our economic development and reform is to consolidate and strengthen the relations of production, and to establish a superstructure suited to socialized large-scale production. If such relations of production and superstructure are weakened, economic benefits will not increase; on the contrary, they will decline.

The economic laws particular to socialism must be respected. What are the economic laws of a socialist society? How are they described? Opinions in the academic community differ, and the issue is open to further discussion, but there are several fundamental economic laws which embody the objectives of socialist production, including: the law of planned, proportional development; the principle of "to each according to his labor"; etc. These are objective realities which cannot be negated. While it is true that we must emphasize conformity to the objective laws of the commodity economy as we develop the commodity economy, it remains a fact that if we ignore and violate the objective economic laws that are particular to socialism, economic benefits, just as in the former circumstances, will decline rather than increase.

3. We must properly readjust economic structure.

Economic benefits come from the economic structure. A rational economic structure brings good economic benefits; an irrational economic structure brings poor economic benefits.

There are two aspects to the readjustment of economic structure: readjustment of added volume and existing volume. Readjusting added volume means to cut back on investment on regular construction projects and place priority on investments in agriculture, energy resources, transportation, and scarce raw and semifinished materials, all the while assuring overall equilibrium. However, in increasing added volume in these areas, it is necessary to act in accordance with the principle of economic benefits by doing proper feasibility studies and abandoning the old tendency to initiate projects impulsively and ignore economic benefits. Readjusting existing volume means to readjust the current structure of existing volume in accordance with the principle of optimization of combinations. The key here is that we recognize the need for some enterprises to be "proped up" and for others to be "squeezed." Some must "live" while others "die." We must give necessary monetary and material support to enterprises which achieve good economic benefits are in line with the state's industrial policy. State-run large- and medium-size enterprises, in

particular, should receive such support; enterprises not in line with industrial policy which show no promise of development, achieve poor economic benefits, and depend on state subsidies should be restricted. They should be closed, have their production suspended, merged with other enterprises, or shift production to other products.

4. We must do a good job of technological upgrading and scientific and technological progress.

Technological progress is a great fountain of improved economic benefits. Stagnant technological upgrading and slow scientific and technological progress are important factors affecting China's economic benefits. If we are to improve economic benefits, we must carry out scientific and technological upgrading in enterprises in a planned manner and work vigorously to develop new technologies. For a number of reasons, the phenomenon of aging equipment in China is quite prevalent, but with the current scarcity of funds, it will be impossible to carry out comprehensive technological renovation and upgrading; the only possibility is to target and concentrate our resources upon enterprises which are in line with industrial policy, exercise good management, and achieve good economic benefits. Furthermore, we must act in accordance with industrial programs and technology policy by seeking to renovate and upgrade old bases and enterprises one step at a time within a reasonable time frame.

In the short run, to do a good job of developing new technologies, we must choose a number of science and technology projects in which low investments will yield high benefits. We must concentrate our technological resources and science and technology funds and work hard to achieve results within a short period that can be applied to production.

The development of new technologies must be closely linked to technological upgrading in enterprises. Not only must we use new technology to help enterprises turn out new generations of products, but we must arm enterprises with new technologies and help them renovate and upgrade equipment.

5. We must improve macroeconomic regulation.

First, we must maintain the economy's stable and co-ordinated development and prevent economic overheating or a market slump from occurring again. We must do a good job of controlling total volume and maintain equilibrium between total social supply and demand.

Second, we must closely link economic reform and economic development, enabling reform to proceed forward in an orderly manner, as is required if development is to take place in a coordinated manner. We must overcome the problem we have always had of single-minded pursuit of one model of economic reform while ignoring the need for coordinated development.

Third, in our regulation of enterprises, policies and directives must be unified. Conflicting policies originating in different government organs and the presence of too many meddlesome functionaries are problems which must be avoided. The autonomy of enterprise operations must be preserved.

Fourth, we must continue to rectify the circulation link and improve "the three chaotic situations."

6. We must improve enterprise management.

In the end, we must carry our efforts to improve economic benefits on through to the enterprise level. Within the same economic environment, some enterprises achieve good economic benefits while others do not. The key is management within the enterprises themselves.

There are four important points regarding the improvement of enterprise management. First, people's spirits must be bolstered. We must use adherence to the goals of socialism to tap the enthusiasm of workers and staff. We must reaffirm the position of workers and staff as masters of the house, and short-term enterprise behavior and lackadaisical attitudes must be overcome. Second, we must establish regulations and make them sound, overcome the idea that with contractors in charge, the government need not exercise regulation, strengthen economic accounting, and work hard to lower consumption and costs. Third, we must perfect internal enterprise operating mechanisms. In particular, we must implement the principle of to each according to his work. We must increase the gap between different between different pay grades, and the wages and bonuses of workers and staff must be closely linked with their job performance so as to overcome equalitarianism and the "big rice bowl" phenomenon. Fourth, we must improve distribution of retained enterprise profits. Enterprise production development funds must be increased as much as possible so as to overcome the tendency to shunt too great a portion of retained enterprise profits toward individuals. We must enable enterprises to rely on their own resources to achieve annual increases in operating funds, renovation and upgrading funds, and new product development funds.

Conflicts Regarding Shoudu Steel's System

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[Article by Wang Zhuo (3769 3820) and edited by An Luming (1344 6523 2494): "Conflicts Between Two Concepts of Systems—Proceeding From Two Kinds of Comments on Experience of Shoudu Iron, Steel Company"]

[Text] It is an undeniable objective fact that Shoudu Iron and Steel Company's contracting system has achieved prominent success. However, there are two kinds of almost opposite comments on the company's experience: One is full affirmation, and seeks "popularization as soon as possible"; the other is basic negation, declaring

that Shoudu Steel is "having an unorthodox meal," and that if its experience should be popularized, state finances could hardly bear it. There are two diametrically opposite comments on a single matter! What merits our attention is: What kinds of contradictions and conflicts after all do these differences reflect? I think we must grasp the essence of the conflicts before we can reach a common understanding.

Reform is a revolution, and is a process of revolution of old systems carried out by new systems. It is not at all surprising that such drastic changes, when reflected in the mind of the people, are expressed in the form of conflicts between two systems. The present different comments on the Shoudu Iron and Steel Company's experience are exactly the expression of conflicts between two concepts of systems. Therefore, it is important to thoroughly discuss assessments of Shoudu Steel's experience.

I. The System of Revenue and Expenditure Realized and the System of Power and Responsibilities Generated

From the point of view of comprehensive economic strength, people said that Shoudu Steel's experience had been favorable in "rapid growth," "great vitality," "strong staying power," and "favorable returns" since its introduction of the contracting system. These were comments from financial departments. These comments showed that after the contracting system's introduction the comprehensive economic strength grew rapidly and the staying power was very strong too.

But if one judged Shoudu Steel's experience from the distribution structure between the enterprise and state finance, one would come to a different conclusion. One viewpoint believed that Shoudu Steel's experience was not of universal significance, on the grounds that in 1981 the profits submitted by Shoudu Steel accounted for 85.4 percent (i.e. the rate of profits submitted) of the realized profits, and in 1982 the rate of profits submitted went down to 75.5 percent. Using this as the foundation, it held that Shoudu Steel had retained too much profits, and there was too big a drop in the rate of profits submitted. That was an account done according to the system of revenue and expenditure realized, and it involved the question whether or not the systems reform had broken with the unitary system of revenue and expenditure realized. Therefore, we should study the relations between the new reform situation and the system of revenue and expenditure realized.

Under the old systems, the revenue and expenditure financial relation between state finance and the enterprise was on two separate lines: the profits realized by the enterprise were basically totally submitted to state finance, and for investments the enterprise had to work out plans and apply to state finance for appropriations. The appropriations by state finance to the enterprise, and the submission of taxes and profits to state finance by the enterprise were a "double track system" on two

separate lines. Therefore, it reflects the actual distribution relation to practice a unitary system of revenue and expenditure realized on the financial relation between state finance and the enterprise, and is a feasible accounting principle.

The new change mirrored by the reform of the old systems on the revenue-expenditure financial relation between state finance and the enterprise is: The "double track system" on two separate lines of revenue and expenditure has been changed to the "single track system" on one unitary line of revenue and expenditure. That is, the enterprise submits to state finance taxes and profits, and state finance in general no longer provides the enterprise with appropriations for investments. The enterprise relies on retained profits for its own supplementary investments.

Now the question is: It should be made clear to whom the right to the properties created by supplementary investments from retained profits of the enterprise belongs and how to define the relation of profits distribution. I think it is necessary to let the facts speak for themselves and let the facts define. Facts show: The properties created by supplementary investments from retained profits of Shoudu Steel have neither become private ownership nor become share ownership by the workers and staff, they remain under the ownership of the Shoudu Steel enterprise. And the Shoudu Steel enterprise properties are state-owned, and the increase in a state enterprise's properties means an increase in state properties. Based on such a fact, to calculate the revenue and expenditure between state finance and the enterprise, it is necessary to do two accounts by using the method of combining the system of revenue and expenditure realized and the system of power and responsibilities generated: One account is how much profits and tax the enterprise has submitted to state finance; the other is how many properties the enterprise has accumulated for the state. In one round of the contracting period, to measure how much the enterprise has contributed to the state, we should use as criteria the total of addition of the two accounts; to measure the distribution structure, we should also use the total of addition of the two accounts as criteria. The accounts done by Shoudu Steel based on the system of revenue and expenditure realized and the system of power and responsibilities generated show: For the past 12 years, the profits and tax Shoudu Steel submitted to state finance plus the newly increased fixed assets totaled 13.3 billion yuan equivalent to 90.6 percent of the total of profits and tax realized for the corresponding period. Can such a rate of profits and tax submitted still be regarded as low?

Someone might raise such a question: A part of the profits retained by the enterprise was changed to expenditures in the form of wages, bonus, and welfare. Toward such a question, we should analyze from the shaping of two mechanisms: 1) Viewed from a restraint mechanism, to link profits retained by the enterprise with the interests of the workers and staff, it had broken the distribution mechanism of "eating from the same big pot," and

then came the system of restraining the distribution of the workers' consumer funds. The restraint mechanism was to restrain the distribution of the workers' consumer funds by enterprise returns. Taken as a whole, it was to restrain additional distribution by greater contributions. This was a great progress for reform. 2) Viewed from an excitation mechanism, to link profits retained by the enterprise with the interests of the workers and staff, it brought about the excitation mechanism of arousing the initiative and creativity of the workers and staff, and it was also the mechanism of encouraging workers and staff to make greater contributions to the enterprise by their own interests. It is the intrinsic motive force of "rapid growth," "great vitality," "strong staying power," and "favorable returns" for Shoudu Iron and Steel Company. It is yet another gigantic result reform has achieved.

As to whether or not the phenomenon of "more distribution and less retention" ever happened in Shoudu Steel, I think the state should exercise supervision and control if such a short-term behavior did appear, and we should not negate the contracting system on such a ground. Shoudu Steel's actual situation is that the retained profits are distributed in a 6:2:2 ratio; the total amount of wages and profits realized float in the ratio of 0.8:1. From 1978-90, the average monthly income of the workers and staff increased 3.5 times, while the average profits created by the workers and staff in the corresponding period grew 4.88 times. How can one declare that the contracting system will inevitably bring about the short-term behavior of consumer expansion?

On the distribution relation between the enterprise and state finance, it seems an expression of two concepts of systems on the financial distribution relation, to do just one account based on the system of revenue and expenditure realized, or work out two accounts based on the system of revenue and expenditure realized and the system of power and responsibilities generated.

II. Special and General Policies

Policies and systems are closely related. The old systems need policies adaptable to them, so do the new systems. Therefore, it is quite natural and conforms to the objective requirements of the general orientation for the state to readjust the economic policies during the transitional period of reform.

Some people believe that Shoudu Steel's experience should not be popularized, on the ground that "Shoudu Steel's profits increased rather rapidly, apart from the subjective efforts of strict management within the enterprise, it is an extremely important and obvious factor that it enjoys the preferential treatment of special policies."

What is meant by the preferential treatment of special policies? One is special circumstances; two is special conditions.

1. By special circumstances, it referred to the fact that Shoudu Steel's production capacity was unable to form a

complete set and had potentialities within the enterprise before the popularization of the contracting system. From 1974-79, the state invested 500 million yuan in Shoudu Steel, which succeeded in building a project with a comprehensive annual production capacity of 3 million tons of raw iron. However, the production capacity was unable to form a complete set. In 1981, Shoudu Steel turned out 1,474,000 tonnes of steel, 1,207,000 tonnes of steel billets, and produced only 576,000 tons of finished steel products. It was compelled to sell to other enterprises 748,000 tonnes of steel billets, and 1,090,000 tonnes of raw iron; and as the profits for steel billets and raw iron were low, there were tremendous potentialities in enterprise returns.

2. By special conditions, it referred to the fact that before the popularization of the contracting system, Shoudu Steel had enormous retained profits every year, and had built up relatively ample funds for technical transformation. After the gaps in production equipments were filled and supplemented, Shoudu Steel enlarged its capacity in tempering and rolling steel, which was followed by a tremendous increase in economic returns.

Before the contracting system, the enterprise's potentialities could not be brought into play, and once the contracting system was introduced the enterprise' potentialities were brought into play. Is that an experience which should be affirmed or not? Different concepts of systems will surely make different replies.

Those holding old concepts of systems believed that it was because the base was low when the contracting system was introduced, and that Shoudu Steel enjoyed the preferential treatment of special policies. The state should not have given such special preferential policies to Shoudu Steel, and, therefore, its experience should not be affirmed.

Those holding new concepts of systems believed that the original production capacity could not form a complete set and had great potentialities in increasing income was a problem which existed in general in various large iron and steel complexes all over China, and was not a special unique situation for Shoudu Steel. By relying on the contracting mechanism, Shoudu Steel built up its capacity of self-accumulation, self-remoulding, and self-development; filled up and supplemented the gaps of production capacity which originally was unable to form a complete set; and succeeded in converting potential benefits into real returns. This is exactly an important argument that Shoudu Steel's experience is of universal significance.

The focus of the controversy is whether or not the base for contract was set too low? According to Shoudu Steel's accounts, the base for contract and the rate of progressive increase were not very low, but very high: Shoudu Steel took 270 million yuan of profits submitted as the base for 1981, which was 9.31 percent higher than the 247 million yuan of profits submitted for 1980, the highest in history. Such a base for contracted profits to

be submitted was also the highest among iron and steel industries. Calculated by the amount of profits submitted out of every 100 yuan of sales income, it was 29.55 yuan for Shoudu Iron and Steel Company; 20.16 yuan for Wuhan Iron and Steel Company; 24.77 yuan for Benxi Iron and Steel company; 6.54 yuan for Panlihua Iron and Steel Company. The profits submitted registered a progressive increase by 7.2 percent per year and the amount of profits submitted doubled in 10 years. For a large enterprise, such a rate of progressive increase in profits submitted was very high and not very low. the rate of progressive increase in profits submitted by the Anshan and Wuhan Iron and Steel Companies after they carried out the policy of being responsible for a progressive increase in profits submitted was respectively only 3 percent.

In my view, to judge whether or not Shoudu Steel's experience is of universal significance, we have to see whether or not it can overcome the contradictions that existed in general in large state enterprises; whether or not the enterprise's potential efficiency can be brought into play, the gaps of production capacity can be filled up and supplemented by increased enterprise returns, and whether or not the production technology can be upgraded continuously by raising the enterprise's efficiency. Shoudu Steel's experience shows that the contradictions that cannot be overcome by general policies of the old systems can be overcome by special policies of the new systems. These special policies should be regarded as general policies. If we review the essence of things, the so-called special policies given to Shoudu Steel, I think, fall mainly into the following three most essential points:

- 1) Fix the base and the rate of progressive increase on a contract basis. Fix the unchanged aspect (base), and we can stabilize the financial income; fix also the changed aspect (rate of progressive increase), and we can ensure the steady growth of financial income. This is done in order to simulate the state enterprise's mechanism of assuming sole responsibility for profits and losses, thereby overcoming the contradiction that state enterprises are responsible only for their profits but not for losses.
- 2) The contracting period is rather long, thus overcoming the enterprise's short-term behaviors resulted from too short a contracting period.
- 3) To whom shall we contract the state enterprise? We should only contract it to an enterprise whose leading body is politically strong, professionally competent, and united in hard work. Only such a leading body of the enterprise can bring up high quality ranks of workers and staff.

During the transitional period of reform, reform is a process of gradual advance and quantitative change. Reform is a new thing, and it requires taking reliable methods of experiment and promotion, including reform experiments at selected areas and enterprises. Therefore,

it will inevitably bring about differences in policy for a certain period. It is a normal phenomenon. How should we look upon these policy differences? Now there exist conflicts between two concepts of systems: Some people regard the old policies suitable to the old systems as general policies, and regard the new policies suitable to the new systems as special policies. People with an old concept of systems regard old policies as reasonable, normal phenomenon, and regard new policies as unreasonable, abnormal phenomenon, and take an attitude of curbing the new and assisting the old. This is an expression of the old concept of systems towards policies. In my opinion, to comment on Shoudu Steel's experience from the new concept of systems, from the experimental point of view, it is a special policy, and from the point of view of popularizing experience, it should be changed from a special to a general policy. If special policy is not changed to general policy, the experiment of such a special policy will lose its meaning.

III. "Release Water To Raise Fish" and "Whip the Fast Ox"

The debate set off centering on Shoudu Steel's experience is in essence an argument on the two propositions of overcoming the current financial difficulties. Those who affirm Shoudu Steel's experience confirm that it is a permanent measure of overcoming the current financial difficulties; those who basically negate Shoudu Steel's experience believe that it is not the way out for overcoming current financial difficulties. If it should be popularized, state finance can hardly bear, and would on the contrary aggravate, financial difficulties.

China's current financial difficulties mainly are not the result of an inappropriate distribution structure, but from revenue and expenditure factors. The expenditure factor is primarily that too many people rely on state finance for living. The expenses paid according to the number of people account for too large a percentage of expenditure by state finance. This has been the potential financial crises for many years. The revenue factor is primarily that the returns of large and medium state enterprises are low. This is the basic factor that has brought about the current financial difficulties. Therefore, to overcome them, the readjustment of the distribution structure is but a temporary solution. The permanent cure is to enhance the efficiency of large and medium state enterprises.

Is Shoudu Steel's experience good experience for increasing enterprise returns? This is also a question on which people have different viewpoints.

One comment is: Shoudu Steel's experience is a measure of making "trade reduction and profit concession" and "having an unorthodox meal," and should not be popularized, on the ground that: If Shoudu Steel's experience is to be popularized, we must lower the percentage of profits submitted to state finance by China's nine large iron and steel complexes for 1989, which accounted for 51.26 percent of realized profits, to the percentage (14

percent) of profits submitted by Shoudu Steel. These nine large iron and steel complexes will submit at least 1.332 billion yuan less each year. Considering that enterprises of other industries will also ask to follow the measure of Shoudu Steel, that would possibly initiate a nationwide "tax reduction and profit concession." Then it would be difficult for finance at various levels to bear. The conclusion is: Shoudu Steel has "had an unorthodox meal" for many years, and it is time for it to make greater contributions. In other words, it is time to "whip the fast ox." Accordingly, they hope that "Shoudu Steel would truly become an advanced typical example of great proficiency, an example that can be popularized and learned from for enterprises all over China."

Another comment is: Shoudu Steel's experience is good experience in "releasing water to raise fish," and more water brings more fish; and the gains by the state, the enterprise, and the workers and staff can all increase by a big margin. The data is: the profits realized by Shoudu Steel for 1978 were 377 million yuan, and 2.625 billion yuan for 1990, 6.96 times that of 1978, jumping over Anshan Iron and Steel Company and ranked first among large iron and steel complexes in China. Shoudu Steel's profits increased sharply, who got the most? State finance got the largest part—in 1978, the profits and tax submitted by Shoudu Steel was 371 million yuan, and in 1990 1.499 billion yuan, 4.04 times that of 1978. The amount submitted went up 1.128 billion yuan, quadrupling in 12 years. This figure shows that Shoudu Steel's experience is the way to a prosperous nation, affluent enterprises, and wealthy people, and first of all the way to a prosperous nation.

The focus of differences between the two comments is on the percentage of profits and tax submitted.

As previously mentioned, with regard to the percentage of profits and tax submitted, we should work out two accounts based on the system of revenue and expenditure realized and the system of power and responsibilities generated. That is to say, to do one account of profits and tax submitted, and another account of properties (in which originally appropriations were made by state finance and now profits are retained by the enterprise for supplementary investments). The percentage of profits and tax submitted by Shoudu Steel in 1990 was 90.6 percent. Such a percentage is not, of course, low.

If we do an accounting of profits and tax submitted by the enterprise based on the system of revenue and expenditure realized, we will see that in one round of the contracting period the amount submitted by the enterprise increased year by year. How people look upon such a fact has already become the deep-rooted focus of controversy between the two comments on Shoudu Steel's experience.

One comment was to make an analysis from the old concept of systems. They held that the profit rate submitted by Shoudu Steel went down because the enterprise had "had an unorthodox meal" from state finance.

The conclusion was, we must never "have an unorthodox meal." However, if the enterprise was not given such "an unorthodox meal," was it possible for the enterprise to make greater contributions to state finance? Impossible!

The other comment was to make an analysis from the new concept of systems. They held that in one round of the contracting period, it was a reasonable and normal phenomenon that the amount of profits and tax submitted increased and the percentage went down. That was the distribution system of "releasing water to raise fish." The progressive decrease of percentage submitted was prerequisite for ensuring the progressive increase in the amount submitted. If they still deal with such a distribution system by the old concept of systems, stressing that the enterprise should still act according to the old "whip the fast ox" distribution system, i.e. submit more for more profits and submit less for less profits, and state finance to be responsible for losses, and negate the rationality of decrease in the percentage of profits and tax submitted, that is in fact to negate the prerequisite of continuous growth of the amount submitted, which means the negation of the results of reform in the contracting system for enterprises.

People will ask perhaps whether the distribution policy of "releasing water to raise fish" is good or not? And where does the water come from? Can state finance bear it?

According to the account worked out by Shoudu Steel, the base for contract was not low, and the rate of progressive increase in profits and tax submitted was higher than that of the nine large iron and steel complexes in China. The "water" did not come from the "unorthodox meal" of "tax reduction and profit concession." The "water released" was just the state's distribution policy for improving enterprise efficiency. Such a distribution policy had created for the enterprise the initiative and material means for raising efficiency. It was so called fixing the base and fixing the progressive increase rate. With these two fixed, it would provide the enterprise with an excitation mechanism that it could retain more funds for excessive profits. When it could retain more funds, the enterprise would have both the initiative to raise efficiency, and the material means for increasing returns—to use retained profits on supplementary investments. With these two fixed, the enterprise would also face a risk mechanism—if it could not fulfill the task of the two fixed submissions, both the bonus for the workers and staff and supplementary investments for the enterprise would come to nothing, and the enterprise would have a difficult time, and the leading body of the enterprise would be on tenderhooks. Such a risk had created gigantic pressure on the enterprise. To carry out the distribution policy of fixing the base and progressive increase rate, the percentage of profits and tax submitted by the enterprise would inevitably go down in one round of the contracting period.

Many years have elapsed since the debate on Shoudu Steel's experience. Some people misunderstood it as a controversy between one speaking for the enterprise and the other speaking for the state. Actually, that was not the case. When we said that Shoudu Steel's experience was good, we first of all took the position of the state. The premise was that Shoudu Steel's experience made greater contributions to the state, on the ground that the profits and tax submitted to the state by Shoudu Steel quadrupled in 12 years; Shoudu Steel accumulated properties amounting to 3.71 billion yuan for the state from retained profits in 12 years. The two totaled 13.3 billion yuan, 1.108 billion yuan per year on the average, an average annual increase of nearly 200 percent (1.99 time) compared with 371 million yuan, the amount of profits and tax submitted to the state in 1978.

Article on State-Owned Enterprise Reform

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[Report: "Transform Operational Mechanism, Deepen Enterprise Reform—Summary of Theoretical Seminar on Reform, Operational Mechanism in State-Owned Enterprises"]

[Text] The only way we can invigorate large and medium state-owned enterprises is to replace the enterprise operational mechanism and implement further reform. From 8 to 12 July 1981, the Economic Research Institute of the Chinese Academy of Social Sciences, the editorial department of JINGJI YANJIU, the Economic Research Institute of the Northeast Finance and Economics University, the Dalian Refrigerator Factory, and other units, hosted the "Theoretical Seminar on the Reform and Operational Mechanism in State-owned Enterprises." The seminar's purpose was to promote theoretical study on reform of state-owned enterprises and their operational mechanisms and to gather new ideas about invigorating the large and medium state-owned enterprises. Many of the participants were nationally known economists, young and middle-aged economists, relevant leading comrades in the economic administration sectors, and some representative entrepreneurs. JINGJI YANJIU had earlier sponsored an essay competition. From the group of 300 respondents, the magazine selected a number of writers to take part in the seminar. The reason for holding this seminar was to find ways to invigorate large and medium state-owned enterprises. From the beginning to end, everyone understood that they must uphold the four basic principles. The guiding policy for the seminar was "let a hundred flowers bloom and a hundred schools of thought contend." Everyone participated enthusiastically and the discussion covered a wide range of ideas. Here is a brief report of the seminar.

I.

1. Significance of Invigorating Large, Medium State-Owned Enterprises

All participants agreed that the sluggish performance and low economic benefits of large and medium enterprises are the reasons China's economy is not developing steadily and why China has not entered a benign economic cycle. Whether our objective is to conduct theoretical study or find practical solutions, it is appropriate that we should concentrate on the improvement and invigoration of the state-owned enterprises and find ways to intensify reform and to transform the operational mechanism in enterprises.

Large and medium state-owned enterprises are the backbone of the socialist economy. They concentrate most of the production capacity and technological force in the nation. Whether the socialist public ownership system can maintain its solid foundation, and whether the public ownership economy and state-run economy can guide economic development and help achieve social objectives, depends on how well large and medium state-owned enterprises can perform. Therefore, invigorating large and medium state-owned enterprises is decisively important because it affects the entire national economic development and because this serves to consolidate the socialist system.

From the macroeconomic viewpoint, the need to invigorate large and medium state-owned enterprises is both urgent and necessary. First, if we can improve benefits, increase profits, and reduce losses, revenue will continuously increase and financial crises can be eased. Second, we can produce new products, improve the quality of goods, lower the amount of overstocked products, increase the amount of supplies, stabilize the market, and make the market more prosperous. Third, we can improve the utility rate of essential elements, cut down waste, stabilize or lower costs, and stabilize prices by maintaining steady supply. Furthermore, if large and medium state-owned enterprises are invigorated, their ability to accumulate will improve. As a result, national economic development will be steady and continuous. The phenomena of job losses or unemployment in cities and towns will not be so threatening. There will be a higher employment rate and society will maintain stability.

The participants agree that large and medium state-owned enterprises are prone to excessive expenditure, low efficiency, and high wastage. The development style of high investment and consumption is not suitable because China is a country with a big population, scanty resources, and insufficient funds. This is why we must reform large and medium state-owned enterprises and steer our economic development onto the path of high efficiency, high quality, and low expenditure.

Some comrades reminded us that socialism will score the final victory over capitalism. But for this to happen, socialism must create a labor productivity rate that is

much higher than that of capitalism. Our state economy, dominated by the socialist public ownership economic system, must also provide us with strong evidence to prove the truth. Some comrades do not believe that changing the ratio between the public ownership and nonpublic ownership systems by making it favorable to the state will improve large and medium state-owned enterprises. This is because, first, there is a surplus of labor force. The 1980's and 1990's are the time when our population growth is at its highest. Every year, we add over 17 million people. The labor surplus problems in rural areas and the employment problems in cities and towns are severe. We must work harder to develop the collective, individual, and private economies in cities and towns. These economic systems have not been overly developed. In fact, they are insufficiently developed. Second, the financial situation is tight. We do not have enough funds to invest in equipping the workers. For every worker in a heavy industry, we must put in 10,000 to 20,000 yuan worth of equipment. Third, the reform and open policy requires further expansion of the "three kinds of partially or wholly foreign-owned enterprises." We should also know that collective-cooperative economy is a form of public ownership.

As pointed out by Comrade Jiang Zemin in his "Talk at the Ceremony Celebrating the 70th Anniversary of the Founding of the Chinese Communist Party," everyone believes: "In the process of practice, we should conduct systematic study and investigation and take proper measures to settle the question of making a rational combination of various economic elements in the entire national economy step by step and decide on the proper scale of development. Step by step, we will improve our policies on finance, taxation, monetary matters, pricing, labor wages, social security, and the administrative control over industries and businesses. Public ownership will remain as the main body of our economic system. This set up will give a healthy head start to economic developments in other areas, produce a positive effect, and restrict the damage from negative influences."

2. Difficulties Facing Large, Medium State-Owned Enterprises

The participants said that large and medium state-owned enterprises are barely hanging onto their existence and are performing poorly. This is what troubles the entire national economy. Some comrades pointed out that saving the enterprises is urgent. First we save, then we improve. Large and medium state-owned enterprises have the following characteristics. 1) They are overly taxed. After paying their state tax and doling out the money for employee's welfare funds, wages, and bonuses, the enterprises have very little left. This is not all; if they reserve funds as depreciation allowance, they have to pay "double fees." As a result, enterprises are always short of funds and are unable to make any technological renovation. Some enterprises have such outdated equipment that it is difficult for them to increase productivity. Their benefits continue to shrink, costs keep rising, products stockpile, and triangular

debts continue to increase. In the end, they have to depend more and more on circulating funds. In some places, over one-third of the medium and large size enterprises are operating at a loss and, in others, over 50 percent. 2) There are too many administrative rules. Enterprises are given quotas. The duration of assignments for factory directors is restricted. Many other departments will also add their quota requirement onto the enterprises. The varieties of requirements are overwhelming. To top it all, there are supervision, check-ups, examinations, and training sessions to deal with. Enterprises are having difficulties taking part in all these activities. 3) Some large and medium state-owned enterprises are very much tied down by directives and central planning. Meanwhile, the costs of energy and raw materials keep rising but the prices of finished products are kept low or remain unchanged. The increase in the cost of raw materials undermines any profit-making effort.

3. Reasons Why Large, Medium State-Owned Enterprises Are Performing Sluggishly

Seminar participants analyzed the difficult situation facing large and medium state-owned enterprises and what caused it to happen. Some believed that the difficult situation was caused by the fact that the enterprises are not given enough power and that they are not allowed to keep a larger share of their profits. Some comrades thought that the enterprises are not doing well because they are excluded from participating in macromanagement. In fact, they do not have any authority of which to speak. The first problem is that the enterprises have no decisionmaking power. Even when they are allowed to act independently, they often encounter restrictions and interference. When the enterprises cannot act for themselves, they cannot really assume responsibility for their own profits or losses. A relevant department in Hunan Province investigated 509 large and medium state-owned enterprises. The Enterprise Law and other relevant documents issued by the State Council had granted the state-owned enterprises the authority to make decisions in 43 matters. The investigation showed that eight of the rights were gradually denied by the relevant departments and the enterprises were never allowed to exercise their rights in nine other areas.

Some representatives at the seminar concluded that the troublesome relationship between the government and enterprises is what restricts the performances and vitality of the enterprises and this problem can only become increasingly serious. With the financial contract system, every locality or department wants to protect its own interests, making it more difficult for the enterprises to exercise their decisionmaking power. The operational mechanism is warped and economic behavior has become irregular, resulting in inefficient economic transactions. Many comrades believe that the reason enterprises cannot exercise their decisionmaking power is because political administration is tangled up with business operations. The root of this problem lies in the confusing ownership rights of large and medium state-owned enterprises. The government has a mixed role

both as the owner and administrator of the enterprises. The confusion is more acute in the relations between local governments and enterprises. Local governments often try to include nonprofit-making social objectives as production and management responsibilities for the enterprises. This inflicts serious damage on the vitality and efficiency of the enterprises.

Some comrades thought that the current format of state asset control, interest-free loans granted to the enterprises, and the policy about loan payments before tax, and the policy on granting subsidies, discouraged enterprises from becoming socialist commodity economic organizations. They can never truly assume independent management, sole responsibility for profits and losses, and self development. Thus, workers will never become masters of the enterprises, participate in important decisions, and share the risks of management. Managers and workers are not taking the initiative, nor are they really motivated into improving the quality, efficiency, and benefits. In other words, these enterprises are performing poorly because their great potential is not fully appreciated.

Some comrades from government departments think that while the external environment may affect the efficiency and vitality of state-owned enterprises, the real problem is caused by the internal management and administrative systems. Often, the process of decision-making has to go through many offices. In terms of internal control, enterprises have their hands tied. Consumption is high and there is tremendous waste. Product quality is low. Decisions in production and management contradict and overlap. The result is inefficiency. Our technology is behind, the standard of operation is too low, and work discipline is not strictly followed. The working conditions in factories and the environment for industrial processing are terrible. We often neglect to develop or design new products. As a result, our product mix can never be adjusted in time to meet market demand. Moreover, enterprises do not advertise or promote their products to attract more sales.

Some representatives discussed the problem of state-owned enterprises from the viewpoint of development obstacles. First, the legal right to have the decision-making power often is not given to large and medium state-owned enterprises. They are further hindered by the objective existence of regional economic blockades and trade restrictions. Many industries have difficulties entering the market. As a result, there is not enough competition, the prices of products remain high, and the capital interest tax is above the social average. Meanwhile, the economic system and other social factors make it impossible for incompetent enterprises to pull out or to declare bankruptcy. The economic rule of "selecting the superior and eliminating the inferior" and "survival of the fittest" does not apply to our industries at all. Because industries are not given the chance to exit, they continue to stockpile products, their economic returns continue to diminish, and their performance remains sluggish.

Some comrades also believed that one reason why state-owned enterprises are not doing well is that they have excessive amounts of workers occupying superfluous positions and underemployed. The process of industrialization is defined by technological improvement, accumulation, and concentration. This is also the development process of state-owned industries and enterprises. Along with the industrialization process the technical structure of the means of production will also improve. Laborers may have to be transferred from enterprises requiring advanced technical skill. With the planned commodity economy, surplus workers more or less have to be assigned through the market. Because the mobility of workers is artificially controlled, the enterprises are slow in making technological progress and it is not easy for the organic structure of the means of production to develop, accumulate, and concentrate. The means of production cannot be renovated and surplus labor causes overstocking of products. Furthermore, our social security system is defective. The surplus workers from the enterprises cannot find other employment. The social security funds are paid in the form of financial subsidies and bank loans. The comrades with this viewpoint believed that if labor is not the first necessity in life, then distribution according to labor will not be good enough. If employment is not based on quality, if we do not regulate workers' qualification, and if there are no job requirements, work initiatives, or sense of responsibility, then no one will be motivated and enterprises will not do well.

Seminar participants generally agree that the main reason why large and medium state-owned enterprises lag behind is that the system is defective. The administrative system of state-owned enterprises cannot catch up with the implementation and development of planned commodity economy. Policies keep changing but there are no properly defined procedures to carry them out. There is no coherent arrangement within the external environment and the price system, social security, and market format are not correlated. This problem can only be solved by implementing more reform, particularly reform of the ownership system in state enterprises. The key to economic system reform is to intensify reform of enterprises and revive large and medium state-owned enterprises. When these enterprises are revived and when the economic returns are high, this solid economic force will be able to guide our national economic development and help achieve our social objectives. The representatives also point out that intensifying the reform of enterprises includes strengthening control. By implementing more reform of the enterprises we strengthen the control of enterprises and by strengthening control we intensify the reform.

II.

In order to help large and medium size state-owned enterprises to overcome the present difficult situation, seminar participants suggested some practical economic measures and also offered valuable opinions on economic theory.

1. Concrete Actions Aimed At Reviving Large, Medium State-owned Enterprises

Every participant agreed that to intensify the reform of enterprises and revive large and medium state-owned enterprises, we must first select the reform format. However, there was heated disagreement about selecting the most desirable format. Some advocated continuing and perfecting the contract management system; others wanted to implement the shareholding system.

Those who insisted on sticking with the contract management system claimed that the management system can exert pressure and motivate. Through the system, competitive enterprises learn to operate independently, assume responsibility for their own profits and losses, develop on their own, and exercise self-discipline. They will have more say in operation and management and they will become energetic producers and managers of commodities. Although the contract management system is not yet perfect, we do not have any other management system which is more desirable. At the present stage we can only work harder to improve the available system while we look for a replacement. The delegates explored the contract management system from different angles and discussed various ways to improve it.

One school said that the government should extend the contract management system to every level of industrial operations. All levels of management have responsibilities, rights, and profits. The system also applies to individuals. Every person must be notified of his rights and benefits and must also understand that his performance will be evaluated and that he may be subjected to reward or penalty.

The comrades who believed in extending the contract management system emphasized the importance of integrating the system with the internal management of enterprises. Today, many enterprises participating in the contract management system tend to "replace control with contract." As soon as they adopt the contract management system they loosen up their control. In fact, for the extended system to work, there must first be a good internal administration. It is most important that there is a smooth working relationship between the distribution department and personnel administration. To extend the contract management system means to integrate responsibility, power, and benefit. Without a logical and coordinated distribution system and administrative management, it is difficult to ask employees of different ranks to assume responsibility or for the workers to receive the benefits they deserve. It will then be impossible to integrate responsibility, power, and benefit. This will also happen if we do not have a sound personnel administration system. For the workers to participate in competition they must take responsibility and have the necessary authority. When we cannot award the most responsible persons by giving them more power, we will not have anyone to take responsibility.

The second school of thought suggests changing the single layer contract management system into double layers. The first layer is where the government offers contracts to the enterprise employees. The representatives elected by the employees or the representatives from the management committee sign contracts with the government representatives. The second layer of the system is implemented when the employee representatives or the organizing committee make their plans and draw up contracts. They will invite bidders. The contractors who win the bids will assume responsibility and are given independent authority. This school of thought believed that by exercising the double layers of the contract management system, we can exert more control over the short-term economic activities of the contractors, ensure policies are being accurately followed, motivate the participating workers, and make everyone feel responsible.

The third school said that the contract management system should include setting up the board of directors. The idea is that we set up the board of directors and the board selects and hires factory managers through open bidding. The board decides on matters concerning the rate of capital and interest tax, the quality standard of products, the qualification of the employees, and technological progress. It is the responsibility of the board to determine the objective and duration of the contract. Once the target is set, it will be used as the yardstick for evaluating the abilities of managers and workers. If the factories are able to achieve their objectives and fulfill the contracts for the year, under normal circumstances, managers should be given bonuses three times higher than other employees. If the factories succeed in keeping the interest tax rate down, produce goods that meet the quality standards, but fail to fulfill the other requirements stated in the contracts, one-third of the rewards will be taken away for every failure.

The fourth school of thought believed that the success of the contract management system lies in the availability of trained and competent entrepreneurs. If the entrepreneurs are not skilled in business management, willing to take risks, or trusted by the people, then whichever way we decide to implement the system will not matter much because we will not achieve our expected goals. In order to help our entrepreneurs become competent, we must treat business management as a profession, establish the position of professional entrepreneur, and encourage more people to excel in this field. Once the entrepreneurs acquire competency, they will take charge of the situation. They will decide on the most suitable format of contract management system and make flexible adjustments.

Other comrades who also supported upholding the contract management system did not think it was important that we change the contract format. They believed it was more urgent to have a reasonable estimate of the base figure and its increment rate. This is to make sure that the base figure stated in the contract accurately reflects the business interests of the national asset.

In the past, the base figure assigned to the enterprises was often too low and the growth rate was also kept low. As a result, the profit distribution format favored the enterprises and the state received lesser amounts of revenue. We must turn this situation around and elevate the base figure and increment rate to the proper level. Some comrades pointed out that we should deal with the erroneous contract quota. Simply asking the enterprises to repatriate the amount of profit stated in the contracts is not enough; this is why the enterprises engage in short-term business transactions. Contracts should be expanded and should cover a wider range of business operations, such as increasing capital value and making technological renovation. We should list the creating of new products as one objective in the contract.

Others were opposed to the idea of expanding the contract management system, saying that when there are too many required items included in the contract, enterprises will have trouble meeting requirements and then the contracts will not mean much. Even if the enterprises fulfill all requirements, they will have exhausted all their resources and energies. Expanding the contract management system will not serve the purpose of obtaining self management, help the enterprises assume responsibility for profits and losses, or encourage them to develop on their own and exercise self discipline. These people believed that the proper solution would be for the government to extend the time limit of the contract period and scale down the system objectives.

Many comrades at the seminar believe that there are many shortcomings in the contract management system. For instance, there is not enough circulation of assets. This creates an obstacle to the adjustment of industrial structure. As a result, many enterprises will only worry about short-term results. They retain and distribute profits, more for the consumption in everyday life than for productive development. As a matter of fact, enterprises assume responsibility for profits but never for losses. Thus, these comrades recommended a shareholding system. By implementing this system we would avoid all the shortcomings of the contract management system. Not only this, a shareholding system is superior to the present system when it comes to motivating performances, utilizing resources, and promoting development. These representatives recommended adopting a shareholding system as the measure to reform and revive large and medium state-owned enterprises. However, among the comrades who advocated the shareholding system, there are different opinions on what should be the shareholding system with Chinese characteristics.

Some held the opinion that we should have "circular shareholding." That is, enterprises with lateral economic ties can participate in shareholding and form a conglomerate. The associate (mostly township and town) enterprises in the conglomerate can use their funds to become shareholders of the core enterprises and receive dividends accordingly. The core enterprises will then use the capital to invest in member enterprises and share ownership with these members. Thus, core enterprises

become major shareholders of other enterprises and these other enterprises own part of the core enterprises. Each enterprise within the conglomerate is an individual legal body, which must assume responsibility for its own profits and losses. At the same time, the member enterprises work together for their common interests. There are several advantages in making the system this way. First, there are mutual interests and relationships. Members of the group will have to depend on each other in productive operations and become one entity looking after common economic interests. Second, enterprises can raise and transfer funds with no extra expense. Third, by letting the core enterprises (mainly large and medium state-owned enterprises) become the major shareholders, state-owned enterprises can gradually assume the leadership role in the economy.

A second opinion advocated a "socialized limited shareholding economy with the public ownership system as the main body." The public ownership system determines who can issue shares and who can buy shares. In other words, there is a limitation and different professions have different restrictions. There are three ways to implement the transaction. One is to establish companies of limited holding responsibility. These companies do not issue shares; they only raise funds. This method mainly applies to enterprises responsible for infrastructure construction. The second way is to have limited shareholding companies with the public ownership system as the main body. This method applies to basic industries. These limited companies can raise funds by issuing shares. However, there is a restriction on who should apply for the shares; no private individual is allowed to enter bids. The third type of company involves enterprises under other ownership systems. These companies are allowed to issue unlimited amounts of shares. They can sell the stocks to the publicly owned units or they can issue them to private individuals. This rule applies to enterprises which are not connected with basic industries, or enterprises involved in the general industrial productions which are not included in the national planning and essential to daily living.

The third opinion said that we should establish "conglomerates of shareholding enterprises." The conglomerates are organized through a shareholding system and member enterprises become their core. The organization will implement the central planning. They are supervised by the general economic administrative department and it follows the instructions of their departments-in-charge. They will host regular shareholders, or shareholder representatives, meetings. The chief executive officer is responsible for the daily operation, and a board of directors will oversee the situation. The chief executive officer is appointed by the board. State organization will send representatives because the state is also a shareholder of the national property. The representatives will participate in the board and can be elected as chairman or vice chairman. However, representatives from state organization do not join as government officials; they are simply there to exercise their rights as owners. They do

not have superiority over other shareholders and cannot command or demand obedience.

The fourth opinion suggested "free shareholding." The world is full of successful shareholding economy formats. The shareholding system is a style of property organization. The system can link up with the capitalist private ownership system and serve capitalist commodity economic development. It can also be integrated with the socialist public ownership system and serve socialist commodity economic development. We are capable of establishing a shareholding system with Chinese characteristics. Enterprises, groups, and private individuals, should be allowed to buy shares issued by the enterprises. We can set up and develop a normal stock exchange.

Advocates of the shareholding system disagreed among themselves on when would be the right time to implement such a system. Some representatives emphasized that we should not rush into action just because we are anxious for quick success. We achieve the goal of shareholding by continuously creating favorable conditions and by making sure that the transition period is smooth and orderly. Other representatives argue that the conditions for implementing the shareholding system are ripe and the time for trial is complete. We should actively promote the system and make it a part of the enterprise reform at the present stage.

Others oppose implementation of a shareholding system. They do not believe that a shareholding system is the product of commodity economic development. They think that the system is born out of the sophisticated development of capitalism. It is just an elimination process of private capital within the boundary of capitalist production. It cannot, and will not, betray the capitalist private ownership system. Implementing the shareholding system will cause us to stray from the socialist path of reform. Besides, the system will create a series of problems. It will weaken the socialist public ownership system, interfere with the principle of distribution according to labor, encourage speculation in stocks and dishonest behavior, and damage the political stability and unity.

Participants also discussed the two difficulties facing large and medium state-owned enterprises.

Some comrades believed that if we do not alleviate the tax burden on state-owned enterprises, raise the depreciation allowance for fixed assets, and let the enterprises keep their profits, then the enterprises will never be able to be restored, to accumulate, and to develop. However, we have financial difficulties and budget deficits at present. Not only are the enterprises not allowed to retain profits, they are urgently required to increase their payments of interest tax.

Some comrades thought that since large and medium state-owned enterprises cannot make decisions in investment, distribution, and pricing, they do not have the

means or energy to engage in self-restoration, self-accumulation, and self-development. When the enterprises are given decisionmaking power without the mechanism to exercise self-control, they distribute their incomes in favor of consumption. They have a hard time controlling their investment impulse and they prefer to increase their profits by raising prices. This kind of behavior overstimulates the national economic demand and causes prices to rise. In the end, consumption funds and investment scale grow beyond the limit. This is the major cause of inflation.

Some comrades suggested one way to revive large and medium state-owned enterprises is to continue and improve the contract management system. We can increase the numbers of objectives in the contract and try to solve the short-term economic problems. However, the industrial structures in many provinces, such as Liaoning Province, are irrational. Their industrial structures can only be readjusted by first readjusting the amount of assets. To a certain extent, changing the contract management system will tie down the asset departments (at different levels, central and local) and freeze the local assets. This will not promote the optimization and circulation of resources and will make it more difficult to readjust the industrial structure. Some comrades said that while the shareholding system may overcome the shortcomings of the contract management system, it will not be wise to push forward the reform in this manner now because of the immature and imperfect market system and because of the absence of legal control over the stock exchange. Besides, even if it is possible to implement the shareholding system, we still have to face the problems of increasing interests and dividends and prevent distribution from tilting toward consumption funds.

Some comrades also point out that many surplus laborers need to be transferred from industries and from industrial production which requires a more sophisticated technological foundation. However, if too many surplus workers move out too fast for other industries or production units to absorb, this will damage social and economic stability. Meanwhile, the limited economic capacity of the state and society prevents us from implementing a large-scale social security system. One effective way to revive the basic industries is to accelerate price reform and install a rational pricing system. But the demand to stabilize economic growth overrides the need to reform and rationalize the pricing system.

The representatives concluded that economic theorists and comrades working in the economic sector must conduct further study and find the way to pull the large and medium state-owned enterprises out of the rut.

2. Theoretical Opinions on How To Revive Large, Medium State-Owned Enterprises

Many participants decided that enterprise reform was a new operational attempt. We should do more than focus

on improvement of the enterprises' internal organization. We must move to a more profound level of theoretical thinking and explore the future direction and strategy.

Some suggested that we should continue with the idea of "separating ownership from operation," delegate more authority, and allow enterprises to retain more profits. As soon as we let the enterprises have the decision-making power they deserve and increase the amount of profit they can keep for themselves, they will improve their performance. Other comrades said that the idea of reform should go beyond delegating authority and retaining profit. They believe that as a theory, "separation of ownership from operation" is too limited and cannot cover the entire field of enterprise reform in China. We should build on this foundation, make a concrete study of the new situation, summarize the new experiences, and think of different ideas and theories to guide the reform of state-owned enterprises. This requires us to redefine the property ownership of national assets and relocate them to various economic bodies. Furthermore, the boundaries of ownership among different economic bodies must be clearly defined. This will clear the confusion between the role of the government as the owner and the function of business administration. This is the only way for the enterprises to overcome the two obstacles so they can insulate business operation from political interference and assume responsibility for profits and losses. The comrades who shared the above opinion had different ideas on how to divide and define ownership.

Some suggested implementing the enterprise ownership system. That is to say, the enterprises own all the assets. They will be held responsible for management and operation, and they are supposed to increase the value of their assets. As to who may represent the enterprises, there were differences in opinion. Some said it should be the grass root organizations who are involved in the activities of industrial productions. Others argued that enterprises meant only the investment corporates.

Some suggested establishing legal bodies of ownership and implementing a legal entity ownership system. Ownership rights would be shared by the legal members and organizations. This method of division is different from separating ownership and operation. Under the legal entity ownership system, the original ownership of the asset is separated from the realistic ownership. The original ownership of the asset belongs to the shareholders or investors, and the realistic ownership is given to the legal entity of the enterprise and its board of directors. Under this presumption, all accumulations belong to the legal members or organization but not the original owners, meaning the shareholders or investors.

Others suggested building a network of executive councils and creating a format of administrative control. We divide the ownership of national assets and distribute them accordingly to the central and local governments. There will be different layers of administrative control

over the public assets and there will be different classifications of property ownership. Under this principle we get to install two levels of "separated ownership and operation." First, we are able to separate the final ownership of the public assets from the operators of the assets. Governments at various levels are granted the ultimate ownership of assets. At the same time, the asset management organization is authorized to take care of the national property. Second, the ultimate ownership of the asset is gradually separated from the legal entity ownership. The economic returns from the state assets will be higher and we will be able to develop enterprises that are good at commodity production and management. Eventually, the administration of state assets will change from material management to value management.

INDUSTRY

New Technology Extends Liaoning Blast Furnace Use

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[Text] Beijing, November 20 (XINHUA)—A new technology to extend blast furnace service life has passed national appraisal recently in northeast China's Liaoning Province, according to the overseas edition of Tuesday's PEOPLE'S DAILY.

The new technology, which was developed by the Benxi Iron and Steel Company, has shown its advantage after being adopted for more than two years.

The inner part of a blast furnace is easy to burn out, specialists say. A composite cooler developed by the company is expected to solve this problem, according to the newspaper.

Specialists also say that if such a cooler is used, blast furnaces will not have to receive medium maintenance between two major repairs.

CONSTRUCTION

Article Views Progress of Housing Reform

HK221111691 Beijing RENMIN RIBAO in Chinese
4 Nov 91 p 2

[By Wang Qingxian (3769 3237 2009) and ZHONGGUO JINGJI TIZHI GAIGE reporter Wang Xiaotong (3769 2556 0681): "What Changes Has Housing Reform Effected?"]

[Text] We started housing reform, although beset by various complications, because housing reform brooked no further delay and hesitation. People are eager to see what results it has achieved so that they can free themselves from doubts and misgivings and see their hopes fulfilled in this regard.

What changes has housing reform actually effected? Can theoretical deliberations and subjective expectations be confirmed and come true in practice?

Let us have a look at the initial replies given by the cities and towns carrying out housing reform. Although their replies are not satisfactory enough, at least they enable us to have greater confidence in housing reform.

Housing Reform Has Changed Family Spending, Guided Residents' Consumption

In the face of excessive demand for household consumer durables, some people wanted to influence residents' consumption by commercializing housing. What practical results have been achieved?

According to a comrade from the Housing Reform Office of Huaxian County, Guangdong, during the Spring Festival in 1989, the county put forth its housing reform proposition with a stress on housing sales. At first, there was a period of brisk merchandise sales. However, in the four months from December to March the following year, the county's sales volume of color televisions sets dropped by 71 percent and that of electric fans by 48.7 percent from the same period of the previous year. Not a single refrigerator was sold in the town.

According to a survey by Shenzhen's Housing Reform Office, after housing reform was introduced the proportion of a family's total consumption spent on housing increased from the previous 1 percent to about 20 percent. Housing costs have become an important item of expenditure in people's livelihoods.

In the Bangbu General Cotton Textile Printing and Dyeing Mill, we visited the families of some employees who have bought new houses or were saving up the money to buy a house. Most of them had 37-mm black and white television sets; very few had refrigerators. An employee who was saving for a house said: "We have lived in this 15-square-meter shack for 10 years. There is no hope of us being assigned a house by our work unit for even 20 years to come. Therefore, we are determined to save the money to buy one. We already have a black and white television set. That is okay. A refrigerator is not a thing we badly need. Moreover, in order to buy a house we have to be thrifty. How can we afford to have fish and shrimps everyday?"

At present, for various reasons, it is impossible for post-reform housing rents to reach the levels of commercial rents in one step. Apparently, under these circumstances selling public housing will have a quicker, more obvious effect in guiding residents' consumption.

How do residents who have bought their houses with their own money think about this? At the Bangbu General Cotton Textile Printing and Dyeing Mill, a couple who had just bought a new house with two rooms and a hall said to us: "Without a house, we will still find the going hard even if we have all the other things. We

can spend less on other areas. With a comfortable home, we will be perfectly happy."

After housing reform is completed nationwide, if the proportion of housing expenditure of urban residents' total family expenditure, calculated on the basis of every urban resident's income being 1,104 yuan, can reach half of Shenzhen's current level, namely 10 percent, annual housing spending for the 200 million urban residents across the country would be 22.08 billion yuan, precisely equal to the annual output value of China's color television sets, or 200 percent more than the output value of its refrigerators.

Housing Reform Has Changed Channels for Housing Construction Funds, Thus Accelerating Housing Construction

Housing reform should embody the principle of common burden sharing by the state, collectives, and individuals in terms of housing and put an end to the previous practice of distributing housing without compensation.

Before housing reform, Tangshan's annual rental revenue was just 21.75 million yuan, which was far from enough to even cover basic maintenance costs let alone use it to build new houses. After reform, the annual rental revenue of all property holding units in the city was 122 million yuan, of which more than 85 million yuan was used to build new houses every year in addition to covering maintenance and management costs. Calculated on the basis of the comprehensive local cost of commodity housing construction, this amount of money could be used to build houses meeting 55 percent of the annual demand for new houses. In 1989 and 1990, the city's Real Estate Administration took 87.58 million yuan from rental revenues and invested it in housing construction.

By selling houses, Shunyi County in Beijing expects to solve its housing problem for the county capital's residents within five years, having originally thought it would take 20 years for a solution.

Housing reform is a readjustment of the interest pattern of the state, collectives, and individuals. The readjustment will benefit the three parties rather than harming one party while benefiting the other.

Housing Reform Has Promoted the Real Estate Industry and Other Related Industries

The aim of housing system reform and commercializing housing is to manage housing in accordance with the law of value and the principle of exchange at equal value, to turn housing construction departments into relatively independent commodity producers and traders, and to establish an economic housing industry with internal vitality.

Under the old housing system, housing needed just input but yielded no output, still less profits. As a result, housing producers—the construction industry—failed to

develop themselves satisfactorily. This state of affairs hampered the development of industries which are related to and serve the construction industry, such as construction materials, machinery, and equipment, maintenance and decoration, and real estate.

As far as the cities we visited which are carrying out housing reform are concerned, real estate markets have begun to develop since housing reform. Reform has also promoted the development of other industries to a certain extent. In Huaxian County, all marketable housing sold out after housing reform was introduced. Sixty percent of home buyers redecorated their houses once, with each owner spending at least 5,000 yuan. Before reform, there were only four construction materials shops in the county capital, but in the one year or so since reform, there are now 60 shops or so operating there. In the last two years, the construction industry's profits have dropped in most places, but in Huaxian County the industry turned some 13 million yuan in profits and taxes over to the state in 1990 and its revenues increased 9.1 percent over 1989.

Housing reform has far-reaching significance. The role of housing reform in the national economy as a whole will display itself increasingly clearly as time goes by.

FOREIGN TRADE, INVESTMENT

Protection of Intellectual Property Rights

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27 Aug, 3 Sep 91

[Article by Li Wenzhang (2621 2429 4545): "China Achieves Notable Success in Protection of Chinese and Foreign Intellectual Property Rights"]

[27 Aug 91 p 2]

[Text] Since 1978, China has been carrying out reform and opening up and vigorously developing the commodity economy. A corresponding system of intellectual property rights laws has also begun to be placed on the agenda. Relevant departments have worked together and achieved outstanding success. Since 1982, China has promulgated and implemented a trademark law, a patent law, and a copyright law, which shows that China has basically established a legal system for the protection of intellectual property rights. It will play an extremely important role in promoting international economic exchange and the development of science and technology, in preserving and developing productive forces, and in spurring the development of the commodity economy and the progress of our material civilization.

In order to meet the needs of reform, China took its first step by promulgating a trademark law after studying the systems of trademark law in several developed countries. It has been more than eight years since the trademark law went into effect on 1 March 1983. The trademark

law is anchored in the development of China's commodity economy, and it also takes international precedent and current practices into account. It is recognized as a good law by intellectual property rights specialists around the world, and it has been praised by enterprises in China and abroad.

Protecting trademarks is an important issue of principle. It is necessary in order to preserve productive forces, promote development of the commodity economy, and to carry on fair economic and trade cooperation internationally. For this reason, preventing unauthorized use of registered trademarks is a key element of trademark law. This principle, which is widely accepted around the world, is a prominent part of China's trademark law. Article 1, section 3 of China's trademark law stipulates that, "Any trademark approved by and registered with the Trademark Bureau is a registered trademark. The person registering this trademark enjoys sole use of said trademark, and this right shall be protected by law." Since the implementation of the new trademark law, the number of trademark applications has risen sharply every year. There were 57,272 trademark applications in 1990, and the number of effective registered trademarks also increased greatly. In the 30 years from 1950 through 1979, there were only 32,000 effective registered trademarks in China, but there were 279,397 effective registered trademarks by the end of December 1990. Prior to 1979, only 18 foreign countries and territories had 5,130 registered trademarks in China, but by the end of last year 62 foreign nations and territories had 42,097. The United States only had 122 registered trademarks in China prior to 1979, but they had increased by a factor of over 100 by 1990, reaching 12,528. The sharp increase in the number of registered trademarks is ample demonstration of the rapid development of China's commodity economy and of our foreign trade. At the same time, China has strengthened ties and cooperation with global intellectual property rights organizations and intellectual property rights communities in various countries. China joined the World Intellectual Property Organization in 1980 and the Paris Convention for the Protection of Industrial Property in 1985, and began implementing the International Classification of Goods and Services for the Purpose of the Registration of Marks (the Nice classifications) in 1988, which brought China in line with modern, international practices in the area of trademark applications and inspections.

From an international prospective, the regulations in China's trademark law are consistent with current international practices, but they also demonstrate special Chinese characteristics, which are demonstrated mainly in the following areas: 1) Exclusive trademark rights are protected along with the interests of consumers. It is the direct objective of the trademark law to protect exclusive trademark rights, and a simultaneous purpose is to protect the interests of consumers. 2) Unified registration is combined with multilevel management. Trademark registration is handled centrally by the Trademark Bureau, while responsibility for trademark management

is divided up between industrial and commercial administrative organs at every level from the central government down to local governments. 3) A dual track administrative and judicial approach has been adopted for investigating possible trademark abuses. Industrial and commercial administrative organs as well as the people's courts all have authority to investigate trademark violations. 4) Investigation and review have been combined. Any person can appeal a ruling on a trademark opposition, trademark rejection, or some other trademark controversy to a trademark review agency, which will decide on a final resolution, thereby preserving the legal rights of the appellant. This is in line with several aspects of current international practice, and it is also in line with China's regulations. This has played an extremely important role in preserving the legal rights of trademark holders in China and abroad.

The main principles of China's trademark law are the principles of registration, priority, voluntary registration, and investigation. The meaning of the principle of registration is that no enterprise has exclusive right to any trademark until it has gone through the legally prescribed registration procedure. This principle is in line with China's actual circumstances, and it is also used by many other countries. The principle of priority complements the registration principle. According to the trademark law, when two or more applicants apply for the same or similar trademarks, the first applicant is accepted while later applicants are rejected. The priority principle and the registration principle are interrelated and complementary.

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[Text] As a member of the Paris Convention, China has earnestly adhered to the most important principles of that organization: "equal treatment for foreigners and national citizens" and "priority." Whether in applications for trademark registration or in the protection of trademark exclusivity, Chinese and foreigners have all been treated alike. For example, on 28 June 1983, DuPont de Nemours and Company applied to have "freon" registered as a trademark in the category of "refrigerants, icing agents, fuel detergents, solvents, and blowing agents." At the time, the Chinese transliteration for freon (fuliang) was already universally used by consumers and in industry in China to mean "refrigerant." For this reason, the trademark bureau ruled that "freon" was a synonym for "refrigerant." In accordance with Article 8, section 5 of China's trademark law, the bureau turned down DuPont's application on 12 August 1983.

DuPont then appealed this decision to the Trademark Review Committee of the State Administration for Industry and Commerce, arguing that DuPont had created the term freon, that it had always used it as a trademark since 1931, that it was already a registered trademark in 91 countries, and that it was listed as a famous trademark in the Collins Dictionary of the English Language. After a thorough investigation, the Trademark Review Commission affirmed that the term

freon had indeed been invented by DuPont, and that it was not the name of a commodity. The final decision was to permit the registration of "freon" as a trademark.

In 1985, an Australian firm (Hongtu Company, Limited) applied to have registered as a trademark the words "Pizza Hut" along with the image of a roof in categories 33 and 34 of the International Classification System, and preliminary approval was received. Pizza Hut Company in the United States objected to this preliminary approval of the Pizza Hut trademark. After a thorough investigation, the Trademark Bureau found that this trademark was a creation of the U.S. Pizza Hut Company, and that it enjoyed exclusive rights in 104 countries. In the Paris Convention, Article 6, section 2 deals with household names. In accordance with this article, the Trademark Bureau ruled on 17 August 1987 against the use of the Pizza Hut trademark by the Australian firm, and it approved the registration of this trademark by the U.S. Pizza Hut Company. This shows that China is working hard to shoulder its responsibility as a member of the Paris Convention and that it is doing a conscientious job of adhering to the principles of this organization.

China has always rigorously enforced trademark exclusivity rights. Sections 38, 39, and 40 of China's Trademark Law stipulate what constitutes violation of trademark, and it assures the right of the proprietor of the violated trademark to demand that the government organs in charge of regulating industry and commerce in the jurisdiction of the violator deal with the case and mete out punishment. Section 43 of the bylaws also clearly stipulates that the violated party can also bring a case directly to the People's Court. Practice has proven that clear legal regulations on trademark violation and the dual track administrative and judicial approach to investigation of such violations are in line with China's conditions and facilitate the timely handling of these cases. In the past few years, among the trademark violation cases which have been rigorously handled by bureaus of industry and commerce at all levels of local government in China, there have been cases involving the trademarks of foreign enterprises. For example, in September 1988, the Bureau of Industry and Commerce in Shenzhen dealt severely with a case in which five companies in Shenzhen violated the IBM trademark. In 1989, Mars Corporation, of the United States, discovered that in Zhejiang Province, Ningbo Municipality, a company called Sanlian Foods Company Limited (hereafter referred to as Sanlian) was stamping a "W&W'S" logo on its candy in violation of the M&M's trademark of the Mars Corporation, and it instructed its agent to request that the Ningbo Municipal Bureau of Industry and Commerce issue a restraining order against Sanlian. The Bureau of Industry and Commerce ruled that the typeface and arrangement of the W&W's trademark was very similar to the M&M's trademark and could cause confusion among consumers, and was therefore in violation of the M&M's trademark. The bureau forbade Sanlian from using the W&W's trademark and took

measures to prevent it from selling commodities with the W&W's trademark in Shanghai and other places. The legal rights of a foreign firm, as proprietor of a registered trademark in China, were upheld.

China has been pursuing the program of reform and opening up for just a short time, and the commodity economy is just beginning to pick up steam, but intellectual property rights laws, which are an important part of the effort to develop the commodity economy and promote international economic exchange, have been accorded an appropriate degree of importance in China. The trademark law was promulgated in 1982, the patent law in 1984, and the copyright law on 1 June 1991. To have perfected a system of intellectual property rights laws in such a short time is quite fast in comparison with other countries. The degree of protection afforded to intellectual property rights is also quite high in comparison with other countries at a similar level of development. Of course, such comparisons are not intended to suggest that intellectual property rights are perfectly protected in China; there are still inadequacies in some areas which require improvement. It has been over eight years since the trademark law went into effect, during which time we have made great progress and achieved historical success in our trademark work. However, as development of the commodity economy has raced forward, we have also discovered inadequacies in the trademark law. We began working the year before last to revise the trademark law. Last April, Comrade Bian Yaowu [0593 5069 2976], deputy director of the State Administration for Industry and Commerce, led a delegation to study and discuss trademark issues with government agencies responsible for this subject in Switzerland, the United States, England, and Canada. The purpose of the trip was to make the trademark law more suitable to China's economic development and the progress of reform and opening up. The general framework of the revised trademark law has taken shape. Its main thrust is to expand the scope of the trademark law, increase service trademarks, further perfect trademark registration procedures, strengthen protection of trademark rights, and make punishments stiffer.

Study Group Explores Utilizing Foreign Capital
91CE0765A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 7, 11 Jul 91
pp 3-17

[Article entitled "Continue To Utilize Foreign Capital Actively and Effectively—Abstracts From Speeches Delivered at the Conference on the Current Conditions and Problems in Bringing Foreign Capital to China"; edited by An Xiaofeng (1344 2556 2800); the first paragraph in italics is a source-supplied introduction]

[Text] *In order to continue to utilize foreign capital actively and effectively and to sum up China's experience in utilizing foreign capital over the last 10 years and explore the future of its foreign capital utilization in the*

next five to 10 years, CAIMAO JINGJI's editorial department, the Chinese Academy of Social Sciences' [CASS] "Analysis of Prospects in Foreign Capital Introduction Under the Eighth Five-Year Plan" Study Group, and the Chinese Market Association's Consultation Department jointly sponsored the "Conference on the Current Conditions and Problems in Bringing Foreign Capital to China" which was held in Beijing on 16 May. The conference was chaired by Comrade Zhang Zhouyuan [1728 0587 0337]. More than 30 people, including experts from relevant departments of the Central Party Committee and the State Council and theoreticians who work in this area, attended. The following are abstracts from some of the speeches:

The Introduction of Foreign Capital Should Concentrate on Quality Instead of Quantity in the 1990's—Ji Chongwei [1323 1504 1218], Executive Director of the State Council's Economic, Technological, and Social Developemnt Research Center

China was very successful in its use of foreign capital in the 1980's. Since 1979, through foreign loans, direct investments by foreign businesses, compensatory trade, leasing and other formats, China has absorbed more than \$70 billion in foreign capital (not including loans already repaid). By 1990, the state has approved more than 29,000 foreign-invested projects, with agreed investment worth \$40.3 billion. More than 14,000 enterprises have opened for business; their actual investment is worth \$19 billion. More than 2 million people are employed by the three kinds of wholly or partially foreign-owned foreign enterprises. In 1990, our exports earned \$7.8 billion in foreign exchange, and we collected \$4.9 billion in taxes from foreign businesses. Within a short 11-year period, China's utilization of direct foreign investments has reached a scope which no one had anticipated at the beginning. Looking back, the Chinese Government only approved 20 Sino-foreign joint ventures back in 1980, and out of those, only 12 actually opened for business, and their agreed investment came to only \$170 million. It is estimated that as many as 9,000 wholly or partially foreign-owned enterprises will open this year, with a cumulative foreign investment of more than \$20 billion. We must attribute all these to the success of China's policy of opening up to the outside world. On the whole, the foreign-invested enterprises [FIE's] have generated good economic and social benefits. In particular, the advanced technologies and management methods brought into this country have done an outstanding job in filling the gaps in tra des and industries in which we fall short, accelerating the upgrading and the replacement of some products, improving quality, adding new varieties, producing import-substitutes, opening up new sales channels abroad, and expanding this country's exports. Of course, there are some unprofitable enterprises. According to preliminary data gathered by the relevant department, about one-third of the foreign-funded enterprises are losing money, and in some provinces and municipalities, more than 40 percent may be losing money. Why? Recently, I made a study in Guangdong, and I would like to discuss my views:

It should be pointed out that the profit and loss figures of the three kinds of wholly or partially foreign-owned enterprises in the survey or accounting reports are not necessarily accurate. Many enterprises report losses when they are actually making a profit. However, we cannot say all figures are bogus. There are many complicated factors involved, and it is very different to tell what is true or false. Based on some local studies, the main reasons why some enterprises are losing money are: (a) Foreign businesses take advantage of the fact that we are unfamiliar with international marketing channels and market situations and make a profit out of the "price differential." They make a lot of money in the circulation link but leave the enterprise with a loss. Some wholly foreign-owned enterprises leave their accounting books abroad, and the plants they set up here are production workshops that only incur costs. How much money they make or lose on paper is controlled by the businessmen abroad. Some foreign businesses are transnational companies, and they can shift a lot of the profit between the headquarters and the subsidiaries by adjusting prices. (b) When enterprises first open for business, because they are not operating at full capacity, the workers are not yet skilled, the market has not been broken in, and the cost is relatively high, many will incur temporary losses. Most enterprises go through this stage, and usually an allowance is made in feasibility studies, and therefore it is a normal phenomenon. The problem is, enterprises will have to pay taxes when they begin to show a profit, and to avoid paying taxes, some enterprises deliberately prolong this money-losing phase. (c) Some enterprises lose money because they are heading in the wrong direction and producing goods that are not marketable or because of the differences and fluctuations between international and domestic prices. (d) Some enterprises lose money for subjective reasons, such as poor management or lack of cooperation between the partners.

Our study showed that some localities are more careful about evaluating and selecting before approving the three kinds of wholly or partially foreign-owned enterprises and about guiding and supervising those enterprises after they open. They study why some enterprises are losing money and come up with the proper countermeasures and take appropriate steps to deal with those causes. As a result, fewer enterprises are losing money, and those that do are more successful in turning losses into profits in a relatively short time. For example, among the more than 160 three kinds of wholly or partially foreign-owned enterprises already in operation in Zhongshan City, 46, or 28 percent, incurred losses last year. After studying the causes, the relevant units, including the departments in charge of foreign economic relations, finance, taxation, banking, and industries, gathered together to take appropriate steps. They worked with each enterprise individually, and today they have reduced the extent of loss to 25 percent and hope to further reduce it to around 20 percent within the year. Zhongshan City's Zhangjiabien District is doing even better: Of the 15 three kinds of wholly or paritally

foreign-owned enterprises already in operation, only two lost money last year, and it is expected that all will be profitable this year. Their method is: (a) Vigorously improve the hard and soft [tangible and intangible] investment environments. Foreign businesses gave Zhangjiabien District 80 points for good management and efficiency and expressed willingness to invest there even if the terms were a little more demanding and the taxes were a little higher. (b) The District Economic Development Company which is in charge of the joint ventures has its own management method. It boldly hires workers who are educated and experienced and put them in charge. The district has set up an enterprise management school. Plant managers and workshop supervisors must take turns to enroll in the school for a year to study management. (c) Factories are put under a democratic management system, and workers contract collectively to make profit. A fixed percentage of the above-quota profit is distributed among the workers. (d) New enterprises are allowed to incur some loss in the first year, but they must begin to show profit in the second year; otherwise, they will be reorganized or merged with other enterprises. Looking at Zhongshan's experience, if we are determined to do practical and meticulous work, we can solve, or at least improve, the money-losing problems in the three kinds of wholly or partially foreign-owned enterprises. We suggest that the relevant departments and the local governments give this issue priority, conduct independent studies, review their experiences, and draw up appropriate countermeasures and policies.

Compared to the 1980's, the international environment in which China absorbs foreign investment in the 1990's will be harsher. There is a huge demand for, but limited supply of, international circulation funds; bank credit is tight, and many are competing for the international funds. On the other hand, China's total debt is near the saturation point, and we have limited ability to match and digest the direct investments, and in particular, we are constrained by the inability to come up with RMB matching funds. For these reasons, we should not expect a huge inflow of foreign funds. However, in order to repay the principal and interest due on our foreign debts and pay dividends on the direct investments we absorbed in the 1980's, China must still borrow some more foreign loans and actively attract foreign capital to ensure a certain amount of net capital inflow. My personal preliminary estimate shows that in the 1990's, China should keep the scope of foreign debts to \$60-70 billion, and we can gradually increase the total amount of direct foreign investment from the present \$20 billion to around \$40 billion by the end of the century. However, our foreign capital utilization should no longer emphasize quantitative increase but should shift to improving the quality of foreign investments and to achieving greater efficiency. In particular, we must guide the foreign investments toward the infrastructure such as energy and transportation, which urgently needs to be developed, and to the raw material industry and electronic and machinery as well as other key projects, which

are capital- and technology-intensive. Projects for which we have an excess processing capacity in or produce goods that compete with our own products in the domestic and foreign markets such as textile, garments, cosmetics, and beverages, should be restricted. In short, the new projects should be coordinated with China's industrial policy and with the technological transformation of old enterprises. Meanwhile, the departments in charge and also local governments should guide and manage the FIE's more closely, making an earnest effort to correct the situation where the departments in charge or the local leading organs are putting their energy into negotiating new projects, but are ignoring the more than 10,000 enterprises already in operation. We must realize that as far as China is concerned, only if we do a good job with the existing three kinds of wholly or partially foreign-owned enterprises can we truly reap the benefits and promote China's modernization, and only then can we make ourselves more attractive to foreign businesses and absorb even more foreign capital.

To Bring in Foreign Capital, We Must Further Reform the Management System—Professor Chu Baotai [0443 0202 3141], Chairman of the Institute of International Investment, Chinese Academy of Management Science

As a result of China's stable economic situation, the continual success of its restructuring of the economic system, its prosperous market, and its ability to maintain balance of payments, international investments in Mainland China have gained increasing momentum. Between January and April of this year, the country has approved 3,095 FIE's, with an agreed foreign investment of \$3.263 billion—both are significant increases compared to the figures in the same period a year ago. How do we expand our effort to bring in foreign capital in the future is an important question. The Eighth Five-Year Plan is explicit about the focus of our absorption of foreign investment: concentrate on energy, transportation, ports, agriculture, and chemical industry and other key projects. How do we achieve this goal and absorb even more foreign investments in these areas? Based on our experience in the 10 years since our opening up, perhaps we should further reform the economic management systems in these key areas. For example, with respect to energy resources and the construction of power plants, we need to make some structural changes in all areas, from power generation to transmission to the sale of electricity. Currently, our power plants are under the jurisdiction of the Electric Power Administration and the state-run power companies. The coal used in the thermal power plants is sold at list price, and electricity is also sold at list price. The electrical network is managed centrally by the Electric Power Administration. Under the current system, it will be very difficult to let foreign investors get into the power plant business. First, foreign businesses cannot buy coal for fuel at list price. Second, since they cannot buy coal at list price, how can they sell electricity at list price? Third, power plants operated by foreign businesses cannot run their own power lines or transformers to deliver electricity; they must work with the state's electrical network. If the FIE's

are to get into the power plant business, they must be held independently accountable. During the Eighth Five-Year Plan period, we need to build many new power plants, including thermal and nuclear power plants, especially in east China and in the southeast. Besides loans, state investment, and funds raised by local governments, we should learn from Guangdong Province's experience in absorbing foreign capital to build the Dayawan Nuclear Power Plant, the Shajiao Thermal Power Plant, and more than 20 small diesel power plants. Guangdong has changed its power supply system from an administration-oriented into a business-oriented system. They allow foreign investors to operate on a "high-in, high-out" basis. "High-in, high-out" means cost plus a reasonable profit; it means letting foreign businesses purchase coal or diesel fuel at negotiated price and sell electricity at negotiated price. Judging by Guangdong Province's power plants, this is a workable method. At the Shajiao Power Plant, the cost is less than 0.3 yuan per kWh, and it sells its electricity at 0.38 yuan a kWh. Today, the electricity Guangdong buys from Hong Kong costs 0.54 yuan a kWh. If each kWh creates 5 yuan in output value, the power plant will make a profit. The Shajiao B Plant has 300,000 kilowatt installed capacity. At the current rate, it is expected to recover its investment in six years, and upon recovering its initial investment, it can further expand. As for the other 20 or so smaller diesel power plants, the cost of diesel-generated electricity is 0.4 yuan per kWh, and the price per kWh is 0.54 yuan in the international markets, and on that basis, it will take approximately three to four years to recover the initial investment. These power plants are foreign-funded, and once they begin to generate power, they are merged with our own large transmission network, and each plant keeps its own separate account. In the future, when we build new power plants, we do not have to depend entirely on loans. Guangdong, Fujian and other coastal provinces are determined to absorb foreign investments to build power plants. Guangdong solved their electric power problem in recent years with this approach. It will be very difficult to have to depend entirely on state investments to build power plants, and that is why it is necessary to solve the problems within the pricing system and the management system. We need to replace the power plants' current administrative management system with a business management system and allow the foreign investors who invest in the power plants to make their own business decisions and take care of their own profits and losses. If we want to set up some power plant and port construction projects and projects that have relatively major impact on the economy under the Eighth Five-Year Plan, we must reform the existing management system to attract foreign capital. Without reform, some key constructions will not get off the ground. Take port-construction as another example. It is facing the same problem. Under the Eighth Five-Year Plan, we have to build ports along the east coast to handle the entrepot trade, especially for the trans-shipment of coal ash up north. The State Council has already stipulated that foreign investors who invest in port construction will be given a five-year tax

exemption, and their taxes will be cut by half in the subsequent five years. But foreign investors have not responded with enthusiasm, and so it is obvious that the problem does not lie here. Guangdong Province's Chiwan Harbor was built with foreign capital. They replaced the administrative management system with a business management system. First they built a dock and put it to use as soon as it was completed, and meanwhile they worked on fleet transport, product processing, sorting and packing, and ship building and repair. They recovered all of their initial investment in four years and then started another dock. Using this "snowballing" method, they continued to expand their port facility, and today, they have completed five 10,000-ton docks. They also absorbed foreign capital to build a high-speed expressway. The Guang(zhou)-Shan(zhen)-Zhu(hai) Expressway which is jointly built by the Guangdong Provincial Highway Construction Company and Hong Kong's Hopewell Group has set the example. Investors are allowed to make their own business decisions, charge a reasonable fee, and even operate hotels, auto-repair shops, gas stations and other multi-purpose businesses along the highway. The state is in charge of administration and management. Such project not only allows the investors to make a profit on their investment but generates even greater social benefit for the state. In short, if we want to lead the foreign investments toward the state's key industrial sectors, we must restructure the existing administrative system and price management system.

In a Sino-foreign joint ventures, the investment goals of the two sides are different. Foreign investors seek a high profit to investment ratio; we emphasize social benefits. We must administer the prices set by the FIE's, but in doing so, we must follow market regulation principles and not mandatory planning principles. If we keep the price below cost, enterprises will not be able to recover their investment within a reasonable period of time. The commodity price administrations must supervise the way the FIE's set prices, but they should not be too rigid. They should mainly make sure that they are not monopolizing the market, setting monopolistic prices, or reaping an exorbitant profit, and they should prevent the FIE's from harming the domestic enterprises and hurting the consumers.

We Must Introduce and Utilize Foreign Capital Even More Actively and Effectively—Yu Xiaosong [0205 2556 2646], Director of MOFERT's Foreign Investment Administration

Since China opened up to the outside world, it has achieved outstanding results in its foreign capital utilization. Its tasks can be separated into two parts: First, it utilizes loans and issues and bonds and spends the funds mostly on the infrastructure, and we have spent tens of billions in U.S. dollars so far. The other part is direct foreign investment. We have approved more than 30,000 projects, with actual direct foreign investments worth nearly \$20 billion. I would like to discuss mainly the latter situation.

Does China have a proper scope of foreign capital utilization? The answer depends on the situation. China is a vast country, but its economic development is very uneven. Of the foreign investments described earlier, two-thirds are in the two provinces of Guangdong and Fujian and the three municipalities of Beijing, Tianjin, and Shanghai, which are among the first to open up. As for the other provinces, municipalities, and autonomous regions, we can only say that they have made a beginning, but the three kinds of wholly or partially foreign-owned enterprises have only made a small dent in those regions, and there is no scope to speak of. On the whole, out of all the foreign-funded projects approved and foreign capital actually put to use in the last 10 years, 90 percent are found in the coastal open regions and less than 10 percent in other areas. As for the specific types of trades and industries, nearly 40 percent of the funds are spent on the real estate, tourism, and service industries. Among the different trades and industries in China's economy, few foreign businesses have invested in the important high-tech projects. As for energy, transportation, basic materials, agriculture and other sectors which the government welcomes more foreign investments, because they take longer to recover one's investment and because of the high risks, few foreign investors have shown much interest. Thus, the question of whether the scope of foreign investment is appropriate must be analyzed based on the conditions in each specific region and specific trade and industry.

What effects do the FIE's have on China's economic development? I think they play an active role in promoting development. This is the most important aspect. The economic development in the SEZ's and the provinces of Guangdong and Fujian and the municipalities of Beijing, Tianjin, and Shanghai is attributable in most parts to their foreign capital utilization. The output value generated by the three kinds of wholly or partially foreign-owned enterprises make up a small part of the GNP, about 2-4 percent, but they play an important part in promoting product upgrade, market competition, and better enterprise management. The three kinds of wholly or partially foreign-owned enterprises already account for a sizable portion of China's exports. Last year, they exported \$7.81 billion's worth of goods, an increase of 58.9 percent compared to the year before, exceeding by far the nation's 18.1 percent rate of export increase. Their export as a percentage of the nation's total export has also increased from 8.4 percent the year before to 12.5 percent last year, and many of the goods they export are new to the international market. Thus, we can see how important the utilization of foreign capital is to the development of China's economy. During the Eighth Five-Year Plan period and in the next 10 years, when we continue to develop the coastal region, especially when we open up Shanghai's Pudong Development Zone, we should open up the provinces and cities along the Chang Jiang [River] and the greater northwest and greater southwest regions, and gradually bring in even more

foreign capital to those areas to facilitate the development of China's mid-west region and improve the industrial distribution and regional structure of the country's economy. The practices of opening up and absorbing foreign capital are gradually spreading to the interior provinces, and the experiences and lessons of the coastal region are worth careful review, so that the interior provinces can learn from them. In the future, we should do an even better job, making every effort to overcome the negative, adverse effects.

What is the connection between the three kinds of wholly or partially foreign-owned enterprises and China's state-run, collective, and township enterprises? Of course they supplement one another, promote one another, and support one another, but at the same time, they also compete with one another. When we install a planned commodity economy, the government must guide the foreign investors in every way and make sure that they suit the smooth development of our economy. To the investor, however, profit and the market come first, and some investors are even concerned only with near-term gains.

Today, although China's domestic market has a lot of potential, we must also realize that its actual capacity is limited, its level and structure of consumption are uneven, and the overall standard is fairly low. Under these conditions, if we rigidly stipulate the percentage rate for foreign sales of FIE's, it may help us balance our foreign exchange income and expenditure and protect the development of our national industries, but it no doubt will limit the influx of foreign capital. Apparently, in order to win more direct foreign investment, we have no choice but to give up a part of the domestic market and exchange market shares for advanced technologies and construction funds. From a different perspective, however, the domestic sale of goods produced by the FIE's will indeed put pressure on our own national industries, but it will also play an important role in promoting their development, forcing our enterprises to compete in the market, separating the superior from the inferior enterprises amid the competition, and enhancing their ability to survive in the market. Of course, China is a developing nation, and compared with the economically developed countries, we still have a long way to go to catch up with their economic strength and technological level, and we simply cannot just throw open the domestic market. The question is how to find the right proportion of national industry versus FIE's that will facilitate the introduction of foreign capital and the development and improvement of our national industries at the same time.

There is another issue concerning the administration of the three kinds of wholly or partially foreign-owned enterprises, that is, we must follow the law and not cause undue interferences. There is no denying that there are conflicts between the government's interests and enterprises' interests. We must study the laws and policies,

review our own experience, and learn from other countries' experiences to improve the administration of the three kinds of wholly or partially foreign-owned enterprises.

In short, there are many new problems in our opening up and in absorbing foreign capital. As government officials, we are often busy taking care of the administrative affairs. We hope that economists and theoreticians can help us understand the problems even better, promulgate the right policies, and do a better administrative job.

An Analysis of the Conflicts in Bringing in Direct Foreign Investments—Li Xiaoxi [2621 2556 6007], Ph.D., CASS's Institute of Finance, Commerce and Commodity

The Eighth Five-Year Plan Program explains clearly what we should bring in from abroad. For example, it says we should gradually import a larger share of technology, especially software [intangible goods], that the emphasis of our importation of foreign technologies should be on the technological transformation of existing enterprises, that we should give priority to technology and equipment that will help us export more and develop products that are import-substitutes, and that in attracting foreign capital, we should strive for more preferential loans and use the money to strengthen our basic industry and key projects, and it also says that we should follow the state's industrial policy and point the direct foreign investments to the right direction. These policy requirements no doubt are correct. Now the question is, can we successfully bring in the foreign resources which we need the most (funds, technologies, and equipment)?

In my opinion, in the cause of bringing in the foreign resources which we need the most, we may encounter the following conflicts: (a) There is a conflict between guiding the foreign investments toward enterprises that "export goods and earn foreign exchange" versus "basic industry-type" enterprises. The essence of this conflict lies in the fact that most enterprises in the basic industry are money-losing enterprises, and most enterprises that export goods and earn foreign exchange are processing enterprises; there are few enterprises which fit both descriptions. Our own interests and that of the foreign investors must be balanced. By the same token, in guiding the direction of foreign investment, there is also a conflict between industries that are "profitable" and those that are "important." (b) It is an established policy that we must concentrate our limited foreign exchange on introducing advanced technologies and crucial equipment. In implementing this policy, there is a conflict in whether we should use the limited foreign exchange to import "hardware" or import "software," and whether to export "hardware" or "software" is also something the other side will have to decide for themselves after comparing their options. For example, as far as the Chinese side is concerned, if we import "software," we will need an even more sophisticated level of production; we must have the ability to digest those technologies, and

we must be able to convert the "software" into "hardware." As far as the foreign businesses are concerned, marketing hardware is good money-making business. Therefore there is still much work to be done if we want to import more "software." (c) It is essential that when we bring in foreign capital and technology we put the emphasis on the technological transformation of the existing enterprises. These enterprises are usually outdated and obsolete. They have little funds of their own, and they have no foreign exchange. Thus, we must rely on the state's financial support in order to import technologies to transform them. However the state has limited financial resources, and after spending the foreign loan funds on basic industry and key projects, not much is left for the transformation of these old enterprises, and it will be difficult to satisfy their needs. (d) There is a definite conflict between importing foreign management skills and the trend toward more wholly foreign-owned factories. In recent years, wholly foreign-owned factories have become the dominant form among the three kinds of wholly or partially foreign-owned enterprises. Of the newly added three kinds of wholly or partially foreign-owned enterprises last year, 60 percent were wholly foreign-funded. It is very difficult for us to know how these enterprises operate, let alone learn from their management experiences. Compared to the Sino-foreign equity joint ventures and joint ventures, the trend toward creating more wholly foreign-owned enterprises makes it difficult for us to learn the foreign businesses' management skills, which was our original intention when we decided to bring in foreign investments. The above problems can be solved step by step. By furthering the reform process and creating a market environment where enterprises can compete on equal footing, we can integrate profit-making, foreign exchange-earning, and the development of basic industries. By improving enterprises' technological quality and internationalizing the market for technologies, we can increase the share of "software" imports. By putting the policy of implementing enterprise reform and enlivening the large- and medium-sized enterprises into effect, we can help the old enterprises bring in new technologies and speed up their technological transformation. By reviewing and disseminating the management experience of the profitable three kinds of wholly or partially foreign-owned enterprises, we can emulate and learn the advanced management skills of foreign enterprises. In short, if we follow the "Program" and work hard, and if we uphold the policy of reform and opening up, we will be able to overcome the difficulties ahead, and our economic development in the next five to 10 years will be very promising.

The Main Factors in the Determination of the Proper Scope of Direct Foreign Investment—Lu Zhongyuan [4151 0022 0626], Ph.D., CASS's Institute of Finance, Commerce, and Commodity

1. Whether we can come up with the RMB [renminbi] loan funds, the cash input, and the equity funds to match the foreign businesses' direct investments is the primary

factor that determines whether the scope of direct foreign investment brought in during the year is reasonable. If we can maintain overall credit balance while guaranteeing fund supply, then the year's foreign investment scope is reasonable. Considering the foreign exchange adjustments and rising prices, the proper proportions of these three kinds of matching funds should be calculated and re-examined regularly. The intervals of examination should best coincide with the intervals of exchange rate readjustments. China must gather sufficient matching share capital in a joint venture, and the percentage of China's share capital is usually higher if it is a new joint venture and lower if we are contributing the existing assets of an old enterprise. If we start many new joint ventures, it will be very difficult to raise the needed share capital. On the other hand, if we develop more "grafted"-type joint ventures, with the same amount of direct foreign investment brought in, we will be able to start even more joint projects. Currently, we have not included the above-described three kinds of matching funds in the state's credit plan, and consequently, from the point of macroeconomic credit balance and the determination of the proper scope of introduction of direct foreign investment, our macroeconomic management is unable to keep track of the situation, which has adversely affected our ability to guide the direction of foreign investments. Thus, it is necessary for People's Bank, the Planning Commission, and Bank of China to get together and draw up a domestic fund supply plan to match the foreign capital brought in, and this plan should be coordinated with the macroeconomic credit plan, so as to facilitate the accurate determination of the proper scope of direct foreign investments.

2. The question of whether we have an ample supply of goods and materials at home: If we have an ample supply of basic goods and materials as well as raw materials needed in production, the scope of foreign investment brought in during that year can be somewhat larger; otherwise, we should narrow the scope. Since we have a shortage of most goods and materials needed by the FIE's, we do not have the supply capability to tolerate an accelerated increase in the scope of direct foreign investment. However, because the overheated domestic economy is under control and the capital goods market is showing signs of weakness, we can expand the scope of foreign investment somewhat. Whether we can provide the FIE's with the necessary domestic goods and materials depends on what we have left after balancing the domestic supply and demand. In addition, how much foreign exchange can the state spend on bringing in goods and materials from overseas will also constrain the scope and the rate of increase in direct foreign investment. Assuming that the supply and demand of goods are balanced, we can develop the capital goods market, dredge the circulation channels, and formulate appropriate policies to actively gather the necessary resources at home and abroad to meet the foreign businesses' needs, and then it will be possible for us to expand the scope of foreign investment.

3. Whether total supply and demand are balanced in the domestic market is a major constraining factor that determines the rate of increase in the scope of direct foreign investment. China's experience shows that when there is excess total demand, too large a scope of direct foreign investment will exacerbate the supply-demand disequilibrium. If overall supply and demand are basically balanced, a slightly faster rate of increase in foreign investments will not hurt. In the future, when we decide on the scope and the rate of increase in direct foreign investment, if the year's overall supply and demand are more or less balanced (a difference of plus or minus 3 percent,) we can accelerate the rate of increase; otherwise we should slow down the introduction of foreign capital.

4. The scope of direct foreign investment proportional to the actual foreign capital utilization is critical to the determination of the proper scope. This proportion in fact is a question of balancing direct foreign investments against foreign loans. In other words, it is a question of how equity financing and debt can supplement each other. We must maintain a proper proportion between equity financing and debt and use the surplus to make up the shortfall and create the necessary balance. In the 10 years between 1979 and 1989, foreign debts averaged 68 percent while direct foreign investment averaged 26.8 percent [of the total input of foreign capital]; the latter seems relatively low and should be raise by an appropriate amount.

5. The increase in the scope of foreign investment should be compatible with the steady rate of economic growth. To apply this principle, we should monitor the rate of increase in actual direct foreign investment as a percentage of the increase in GNP. If this indicator rises at basically the same rate as the GNP, it can be deemed reasonable. However, considering the fact that direct foreign investment as a percentage of the actual utilization of foreign capital has been rising steadily, by the time the actual utilization of foreign capital as a percentage of the GNP is increasing as fast as the GNP, direct foreign investment as a percentage of the GNP may be increasing faster than the GNP. As the base of the scope of direct foreign investment continues to expand, its share as a percentage of the GNP will eventually stabilize.

6. Its relationship with the balance of international payments: The scope of direct foreign investment is proportional to the actual utilization of foreign capital, which makes it relevant to the country's balance of payment situation. Although direct foreign investments have nothing to do with debt payments, if the country at the receiving-end must pay huge sums of foreign exchange for its imports, and the direct foreign investors remit large sums of their profits abroad, it will adversely affect the recipient nation's balance of payments. Since the mid-1980's, the rapid expansion in China's scope of foreign capital utilization has led to a rapid increase in the net influx of capital. This has an important effect on offsetting the recurring deficit items and balancing our

international payments, and it also keeps our debt payment within a reasonable scope each year. This demonstrates that this country's scope of foreign capital utilization is reasonable.

7. We must make sure that the direct foreign investments are properly structured, otherwise the more foreign capital we absorb, the more conflicts with our own industrial structure they will create. Only if we pay attention to how we guide those investments first before we actively but steadily expand the scope of direct foreign investment can we reap the satisfactory social benefits.

Overcome the Difficulties, Actively Attract Foreign Capital—Huang Xiaoxiang [7806 1420 4382], Ph.D., State Council's Research Department

China was very successful in attracting foreign capital in the 1980's. Since entering the 1990's, however, due to changes in the external conditions, attracting foreign capital has become much more difficult.

1. There were plenty of idle funds in the international capital market in the 1980's; interest rates were low, and raising funds was not difficult. In the 1990's, because of the rebuilding in the Gulf region and the reunification of East and West Germany, demand in the international capital market has picked up and interest rates have risen. In addition, a significant amount of international capital has found its way into East Europe, which makes it relatively difficult for China to attract foreign capital on a large scale.

2. Most developing nations treat the introduction of foreign capital as an accelerator that gives impetus to their economic growth. Since entering the 1990's, these nations have been competing with one another for foreign capital by providing favorable terms. Some Southeast Asian nations have even used these preferential terms to lure foreign investors away from China. Competition for foreign capital is intense.

3. Competition in the international commodities market has further intensified. A large group of FIE's, which used to rely on international markets, have turned instead to the domestic market, and are demanding that the it be open to them as a condition of their investments here. Opening up the domestic market no doubt will put our own enterprises at a disadvantage in the competition, but failing to open up will make attracting massive foreign capital and advanced technologies quite impossible. This is indeed a dilemma.

Thus we should not be too optimistic about our ability to attract foreign capital in the 1990's. We must face reality and look for real solutions to our problems.

It should be pointed out that there are still some problems in our effort to attract foreign investments. Among them, the biggest lesson is that we failed to integrate organically the introduction of foreign capital with our own industrial policy, and as a result, for a while we brought in too many foreign-invested projects in the

tourist, retail, hotel, and other businesses in the tertiary industry; we brought in too many nonproductive industries, small projects, and projects that produce light industrial and consumer goods; we brought in too many "three forms of import processing and compensatory trade," joint ventures, and products that use ordinary technologies. We must learn from our mistakes. In particular, the "three kinds of import processing and compensatory trade" have a clearly positive effect on China's economy, but there are two problems which should not be overlooked: First, most of the goods produced by these enterprises compete with our own foreign exports in the international markets; some even use up our export quota. Two, some countries are implementing a system of export certification based on place of origin, and they count the goods these enterprises export as China's export, and this creates a false trade surplus and prevents us from expanding our export trade. We must make a serious effort to deal with these two problems.

China has important economic tasks in the 1990's. It has scarce funds and needs to import even more foreign funds and technologies. In our opinion, we should concentrate on the following two areas when we bring in foreign capital in the future:

First, we should do a better job "grafting" the imported foreign capital onto China's existing enterprises. We should set up more joint ventures and equity joint ventures which make use of and transform our existing enterprises. In other words, we will provide some old enterprises and welcome the foreign businesses to supply the technologies, equipment, and products or the funds with which we can purchase technologies, equipment, and products to transform the old enterprises. Both sides can share the profit after these enterprises are upgraded and further developed. Currently, China has a substantial number of large- and medium-sized mainstay enterprise entering the "gerontic" stage. They have a fairly sound infrastructure; their workers are skilled; they have good technological capability. It will not take long to transform them; they will produce quick results, and the investors will recover their investment quickly. To the foreign investors, this is easier and more profitable than setting up new enterprises. As for China, after these large- and medium-sized mainstays of the national economy are upgraded, our industrial structure will be greatly improved. It will increase our effective supply and economic efficiency. Thus, we should encourage foreign businesses to set up more of this type of joint venture in China and make this a focal point of our effort to bring in foreign capital.

Second, we should encourage the foreign investors to invest in the development of large tracts of land. Facts prove that the advantages of large development projects outweigh their disadvantages. Only large projects can bring big investments and advanced technologies. Moreover, the development of large tracts will prompt foreign business to "put both ends abroad" and produce import substitutes. Large development projects also facilitate

the management of the FIE's as internationalized operations, which will resolve some of the conflicts between the management of FIE's and the existing system.

Several Issues Pertaining to the International Environment for Importing Foreign Capital—Ma Jiantang [7456 1696 1016], Ph.D., the State Council's Development Center

From the close of World War II until the end of the 1980's, the flow of international capital had converged in the following three regions: (a) the Latin American countries, led by Brazil, Argentina, and Mexico; (b) East Asia and Southeast Asia, as represented by South Korea, Hong Kong, Singapore, Taiwan and other newly industrialized countries [NIC's] (regions,) and also China; (c) the developed nations such as Europe, the United States, and Japan (international investments in these developed nations have been increasing at a even faster pace since the 1980's). The international capital market changed dramatically in the 1980's: First, the Southeast Asian NIC's, which used to be countries (regions) with net foreign capital inflow, became countries (regions) with net capital outflow, and they became important international investors, especially in East Asia-Southeast Asia. Second, many Latin American countries developed foreign debt crises, and their heavy debt burden seriously undermined their ability to attract foreign investment during this period. Third, the United States, Great Britain and others took up a neo-liberal economic theory and implemented a tight money policy; as a result, fund supply became relatively tight in these developed nations, although funds in the international capital market were relatively abundant. The changes in these three areas provided us with a very beneficial international environment for attracting foreign capital in the 1980's (especially in the mid-1980's). In addition, we were determined to carry out the policy of reform and opening up, and the work to bring in foreign capital made good progress in the 1980's. By the end of 1990, we had established nearly 30,000 "three kinds of wholly or partially foreign-owned enterprises" and brought in nearly \$19 billion in actual foreign investments.

Since entering the 1990's, however, this favorable international economic environment has changed. First, in the wake of the integration of the European nations and of the United States and Canada, there has been a growing tendency for the developed nations to invest in each other. Proportionally, more and more funds are finding their way from the international capital market into the developed nations. Second, reconstruction after the outbreak of the Gulf War and its quick ending have turned the Gulf region from a capital-exporting region into a capital-importing region. It is estimated that Kuwait alone will take tens of billions of U.S. dollars to rebuild. Third, the quick transformation of East Europe into a market economy has made this region very attractive to foreign investors. Currently, although East Europe's political situation is generally unstable, its economy is weak, and foreign capital has not flown into the region en masse as first predicted by many people, it

is certain that because of its industrial background, its relatively well-educated citizens, and because of cultural and language similarities and good transportation system, and especially because now that its economic system is basically similar [to the rest of Europe's], in the 1990's East Europe will be the center of foreign investments, especially Western European funds. Fourth, there have been important breakthroughs in the negotiations over Latin American debts—their debt burden has eased. Since early 1990, Mexico, Venezuela and other countries have reached agreements with their creditor banks to restructure their loans. The debt-reduction program include: (a) reducing the principal amount; (b) lowering the interest rates and keeping them relatively low; (c) provision of new loans. The successful loan renegotiations have provided the condition for the Latin American nations' economic recovery, and their ability to attract foreign investments in the 1990's will be greatly improved compared to the 1980's.

In short, the Gulf region, East Europe, Latin America and even the developed world will become vigorous competitors in the international financial market in the 1990's. Moreover, conditions have improved to make it easier for the Southeast Asian region, Indonesia, Malaysia, Vietnam and others to attract foreign investments. As a result, the overall international environment for attracting foreign capital has deteriorated in China. To win over even more funds in the highly competitive international financial market, we must work much harder than we did in the 1980's. We must review the experiences and lessons learned in the 1980's and do a even better job at opening up and bringing in foreign capital. This includes improving the investment environment and the quality of the workers. It means keeping order in the commodity economy and perfecting various rules and regulations, and more importantly it means furthering the reform process and maintaining social stability.

Attracting Overseas Investments in Securities Is One Method of Utilizing Foreign Capital Worth Looking Into—Liu Jipeng [0491 4764 7720], Ph.D., CITIC's Institute of International Studies

Since the world economy entered the 1990's, the international economic pattern has undergone many changes. The trend among the Western nations to accelerate their regional integration and syndication especially has attracted much attention. International economic competition is no longer based on the interests of a single country but on the interests of several countries as a group. Today, when we study China's strategy of opening up and sum up our experience in attracting foreign investments, we must give full consideration to the greater international background, and by learning from the successful experiences of other nations in attracting foreign capital, we can immerse ourselves in the torrent of international competition and cooperation, secure a position that is suits us, and find the best way to compete with the others, so that we can absorb even more and even better foreign funds and advanced technologies.

Everybody knows that internationally nations utilize foreign capital in several ways to develop their own national economy: (a) They utilize international commercial loans; (b) they attract direct foreign investments; (c) they attract overseas investments in securities. Looking back at the way China brought in foreign capital in the last 10 years, it is clear that we have relied mainly on the first two methods. When it comes to the utilization of international loan funds and foreign debts to develop our economy, China already owes nearly \$45 billion in foreign debts, and this is the bulk of foreign capital being put to use. The characteristics of this method is that foreign loans are relatively easy to obtain; we are free to put them to use as we see fit; they produce quick results, and most of all, they do not involve the property rights of any single nation or enterprise, and people find them quite acceptable. However, the problem is, to the debtor, these debts are very risky, and the debtor alone bears all the risks. Investing the foreign loan funds in a domestic project generally entails risks that involve deadlines, interest rates, and exchange rates. With respect to direct foreign investments, they not only attract funds and create employment opportunities in this country but also bring in advanced technologies, equipment, management skills, and marketing channels. They facilitate the expansion of exports and our participation in international division of industrial labor. Most importantly, they let the partners share the risks or even make the foreign investors take all the risks (referring to the wholly foreign-owned enterprises). However, the three kinds of wholly or partially foreign-owned enterprises have their obvious drawbacks too. For example, the foreigners can take advantage of the convenient terms which allow them to put "both ends, or one end, abroad," and as transnational enterprises, they can shift prices within the company to reduce their actual profit, and legally avoid paying taxes in China and reduce the revenue of their Chinese partner. As a result, the output value and sales of many of the three kinds of wholly or partially foreign-owned enterprises in China today are increasing rapidly, but their profit tax is gradually shrinking, and some are even showing losses.

What is worth mentioning is the method of bringing in foreign capital by absorbing overseas investments in securities. Securities investment, also known as "indirect investment," refers to the gathering of funds via the issuance of securities (mainly referring to stocks) to foreign nations, foreign enterprises, and social institutions abroad. Normally, each individual foreign investor owns less than 10 percent of an enterprise's total assets, and therefore under this investment format the investors do not participate in the enterprise's actual operation or management. The characteristics of this method of bringing in foreign capital are: One, the risks are very much spread out. The shares are transferrable but not refundable, and so there is no time-limit to the use of foreign funds. The stock as a form of capital will stay in the enterprise forever, and there is no need to pay back the principal. Two, the shares in the hands of the investors can be traded in the capital market, and the

investors really have nothing to worry about. Three, there are many shareholders, and each shareholder holds a relatively few shares and cannot control the enterprise, and this also keeps the enterprise's property rights and management rights intact. For these reasons, securities investment has become the most popular method for attracting foreign capital in the economically developed nations today. For example, the United States has attracted more foreign investments in the form of securities investments than direct foreign investments. Yet, so far this method of bringing in foreign capital has not been adopted by China, nor have we rid ourselves of many traditional concepts. For example, when this author helped the Sitong Company design and implement a shareholding program in early 1988, we had intended to issue 10 million yuan's worth of foreign-exchange shares in the overseas securities markets. That would amount to 20 percent of the company's registered capital as a shareholding company. When they got wind of this, several overseas securities companies expressed interest in underwriting all of the Sitong New Technology Shareholding Company's overseas stock. But the State Foreign Exchange Administrations insisted that "issuing shares abroad is the same as borrowing money overseas," and so the matter was grounded. In my opinion, utilizing shares to absorb direct foreign capital is a method well worth looking into. For example, we can consider issuing two different types of stocks, A and B, in the Shanghai and Shenzhen stock markets. Type B stock refers to stock which must be purchased with foreign exchange but carries RMB value, and only legal entities, mutual funds, and natural persons outside of the country may buy and sell such stock. Foreign investors may subscribe to through securities companies in this country that are qualified to handle foreign exchange, and they can let any securities company that they trust buy and sell their shares on their behalf. Dividends and income generated by the difference between buying and selling prices may be converted into foreign currencies based on the regulation exchange rate and remitted overseas. In addition, we can also consider allowing key domestic enterprises (groups) which we want to develop to issue overseas stock directly through foreign securities companies as a way to raise foreign capital.

In short, China should not limit itself to only one format of raising foreign capital but should use several methods at the same time and put the emphasis on the method of issuing securities. At the same time, it should tightly control the scope of its foreign debts. When taking out foreign loans, it should emphasize the "finishing touch" and choose the most opportune time. Meanwhile, it should also put the effort on perfecting the country's investment environment and come up with its "Corporate Law" and "Securities Law" and other laws and regulations as soon as possible, so that foreign business that invest in China will have legal protection. Of course, it is also very important that we step up our experiments with the enterprise shareholding system, so that our enterprise system is consistent with international standards.

Suit the Remedy to the Illness When Improving the Investment Environment—Luo Long [5012 7893], Ph.D., University of International Business and Economics

Since reform and opening up, China's investment environment has gradually improved. From the time we opened the first Sino-foreign joint venture in 1980 until the end of 1990, China has approved a total of 29,057 "three kinds of wholly or partially foreign-owned" enterprises, with agreed foreign investment of \$44.335 billion yuan and actual foreign capital input of \$19.13 billion. Breaking down this period into several phases, between 1980 and 1983, which marked the early days of reform and opening up, China approved an average of only 348 "three kinds of wholly or partially foreign-owned" enterprises each year, with actual foreign investment averaging \$450 million a year—the actual fund input averaged 26.8 percent of the agreed investment. Between 1984 and 1987, the corresponding figures were 2,165 enterprises, \$1.78 billion in actual investment, which equaled 47.0 percent of the agreed amount. For the period 1988-1990, the figures were 6,335, \$3.42 billion, and 58.7 percent. These figures indicate that China has become increasingly attractive to foreign investors. But we should also realize that although China's investment environment has greatly improved, from the point of the foreign businesses, there is still much room for improvement. Several studies show that besides the "tangible" environment which needs further improvements, it is the opinion of most foreign businesses that when it comes to setting up enterprises here, the stipulated percentage of goods they must export is too high, our foreign exchange balance requirement is too strict, the technology transfer requirement is too demanding, and our valuation of their "software" is too low. They say that it is too difficult to obtain information to facilitate their decisionmaking, that the examination and approval procedure is too complicated, that the frequent personnel changes often make it necessary to renegotiate agreements, and that there are too many unexpected increases in fees for each project. As far as management is concerned, the foreign investors indicate that it is too difficult to raise funds in this country, that raw materials, accessories, and spare parts are on a double-track pricing system and their quantity, quality, and delivery dates are not guaranteed, and that the management environment is unstable (such as arbitrary interpretation of policies and price hikes). With regard to administration, they say there is too much undue interference in personnel, finances, resources, production, and so on.

It is clear that these problems cannot be solved by the old method of improving the intangible investment environment, that is, by granting tax breaks. Moreover, the tax breaks we provide may be meaningless to many foreign investors, because China has tax agreements with most major countries to avoid double taxation, and if the tax rate in the foreign investor's native country is higher than ours, we may even have to make up the difference. Thus, we should begin by analyzing the reasons why

foreign businesses want to invest in China and why we want to attract foreign capital, and then we can determine how we can improve the investment environment by balancing the motives and the interests on both sides. Several surveys and studies show that the three main motives behind foreign businesses' investment in China, in order of importance, are, to get into China's market, to utilize China's resources, and to expand the enterprise and spread out the risks. Taking advantage of the cheap labor and the tax breaks are among the least important reasons. As for China, the first three motives behind the attraction of foreign investments are to bring in technology and equipment, bring in capital, and bring in management skills. Obviously, the motives on the two sides do not match.

From the point of view of coordinating the two sides' motives, and targeting the foreign investors' most serious complaints, we should consider further improving the foreign investors' investment environment in four areas: With regard to the political environment, we must make sure that the existing policy of yielding some market shares to projects that truly bring new and advanced technologies, advanced management skills, and large sums of capital, or which produce import substitutes, are put into effect, and we can consider giving up even more market shares to those projects which are extremely important to this country's development. We can also consider helping foreign businesses balance their foreign exchange or ease our foreign exchange balance requirement. With regard to the "three kinds of wholly or partially foreign-owned" enterprises which are critical to this country's economic development, we can consider further easing the restrictions and allowing them to solve part of their circulation fund problem by gathering funds directly or indirectly inside the country. We should follow international practices in pricing technological software. Except for top secret business intelligence, we should let the foreign businesses have access to all necessary information. Our policy must be marked by stability and clarity. With regard to the political environment, first, we must maintain political stability. This is what the foreign investors are most concerned about. Second, we should ensure the government's honesty, and we should increase the government's work efficiency. With respect to the economic environment, besides further improving the infrastructure, we should standardize this country's economic operations and make sure that the three kinds of wholly or partially foreign-owned enterprises have a smooth reproduction process. We should also enhance the stability in all areas where economic activities are carried out, so that the "three kinds of wholly and partially foreign-owned" enterprises can make better forecasts and make better long-term decisions. With respect to the legal environment, we must further improve and perfect all rules and regulations that are relevant to foreign investments, so that the status of FIE's, their role, responsibilities, rights, and privileges are legally defined and guaranteed. We can also begin to give some consideration to gradually extending national treatment to the

FIE's. In addition, we should make every effort to operate the existing "three kinds of wholly or partially foreign-owned" enterprises properly. This will have the very beneficial effect of turning them into examples to attract others.

Several Relationships Which Should Be Smoothed Out When China Brings in Foreign Investments—Yu Lixin [0060 4539 2450], Research Associate, CASS's Instituted of Finance, Commerce and Commodities

1. On the relationship between where to put the foreign capital brought into this country and how to readjust the industrial structure: today theoreticians have two different points of view regarding the input of foreign capital brought into this country. One view suggests that the input of foreign capital should be guided by the readjustment of the industrial structure under the Eighth Five-Year Plan and should be skewed toward energy resources, raw material, transportation, and other "bottleneck" industrial sectors. Another view suggests that in the future, the input of foreign capital should be directed toward the export industries, with the emphasis on raising the technological standards of the existing enterprises, especially on the technological transformation of old enterprises. I concur with the latter opinion. There are three reasons: (a) China's existing industrial structure is flawed, not just because energy resources and raw materials have become the "bottleneck" that retards economic growth (speed-oriented studies), but more seriously, the real rate of China's industrialization is low, and its industries are economically inferior (efficiency-oriented studies). For example, China's energy utilization rate is 30 percent, compared to over 50 percent for the developed nations. For every \$10,000 GNP, we use 3.4 times more energy than the United States and 7.7 times more than the Japanese. (b) The main reason for the "bottleneck" is because key factors of production cannot circulate freely, and product prices are artificially distorted. In the absence of perfect market mechanisms, and as long as we do not give full play to those mechanisms, even if we direct massive foreign capital to the "bottleneck" sectors, we still will not be able to remedy the flaws in the industrial structure. At most we will be easing the conflicts created by the "bottleneck," but soon it will be replaced by a new round of supply-demand disequilibrium. (c) Putting the foreign capital into the export-oriented, exchange-earning industries is consistent with the general rule of introduction of foreign capital among nations of the world today, that is, every nation is bringing in foreign capital to develop its export production, so that it can change its industrial structure as soon as possible and accelerate its industrial upgrading. For example, after 10 to 20 years' success in bringing in foreign capital, South Korea has acquired an impressive level of industrialization, foreign-exchange earning capacity, and economic strength. In the future, we suggest that instead of letting the government control the direction of foreign investments, we should let two or three major banks take over the task. The government should check and approve the amount of foreign loans the banks take out each year, and it should supervise

which industries the loan funds should be put into. But the banks should be responsible for the examination and approval, and the lending and repayment, of projects funded by foreign loans.

2. The relationship between the SEZ's and technological development zones and the old districts in the coastal cities over the introduction of foreign capital: After a decade of reform and opening up, China has set up five special economic zones, 14 economic and technological development zones, and 26 high-tech industrial development zones. We can boast of having all the better regional formats for bringing in foreign capital in the world today. In the future, the task is to distinguish the different purposes of the different development zones that we have set up, devise different guiding systems, and smooth the relationship between the various development zones and the old districts in the coastal cities over the introduction of foreign capital. The state should decide on what is important and what is not and apply the policies used in the development zones to absorb foreign capital to the old districts in the coastal cities, so as to accelerate the transformation of the old urban districts' traditional technologies and the readjustment of their industrial structure.

3. The relationship between the introduction of foreign capital and the improvement of balance of payments: from the point of macroeconomic management, how a country manages the foreign capital it brings in will directly affect its balance of payments. Since China began experimenting with the drawing up of a balance of payment schedule in the early 1980's, its capital projects have undergone rapid development. We started out with only \$3.8 billion in 1980, and in 1989 we had \$37.2 billion, increasing by nearly 10 folds over a 10-year period. By the end of October 1990, the agreed foreign capital utilization was \$60.96 billion, and actual utilization came to \$44.47 billion. Due to the substantial increase in the net inflow of capital projects, the balance of foreign debts has also gone up, topping \$52.5 billion by the end of 1990. It is estimated that this year and the next, China will enter the first peak foreign loan principal and interest payment period since reform began. Thus, it is essential that we coordinate and smooth out the relationship between the importation of foreign capital and the improvement of our balance of payments. First, we should increase the share of direct foreign investments to ease the debt payment pressure. Data show that throughout the 1980's, direct foreign investments made up less than one-third of the total foreign capital actually put to use. Experiences of other nations indicate that the introduction of foreign capital can be in several forms, including commercial loans and direct foreign investments. Since most businesses that make direct foreign investments are able to balance their own payments, in the future, we should pay more attention to the readjustment of the importation of the foreign capital we bring in and increase the share of direct investments. Second, we should set a reasonable limit to the scope of foreign capital utilization. According to

accepted international standards, the debt ratio should be 10-20 percent and the debt service ration should not be higher than 10-25 percent. China's 1989 figures were 12.4 percent and 32.6 percent, respectively—both indicators were at or beyond the safety line. In the future, as our national condition and national strength change, we must readjust the composition of foreign capital and maintain a structure of loan terms that is more manageable. Third, backed by our existing international reserve, we should take advantage of the fact that different international funds gathering and loans have different due dates and strive to win over more international funds to facilitate the development of our national economy. We should "use new loans to pay old debts" and enhance our ability to fulfill our loan agreements and give us more maneuvering room in repaying our debts.

The Administration of Prices Charged by the Foreign Invested Enterprises—Yang Fan [2799 1581], the State Commodity Prices General Administration's Foreign Relations Department

To encourage foreign investment in China, this country has promulgated and implemented a series of more than 200 relevant laws and detailed rules and regulations. Among them are also appropriate regulations pertaining to the administration of prices, and they have played a definite role in facilitating the country's opening up. But on the whole, price administration that pertains to the FIE's has been the weakest link in our price administration work. This is seen mainly in the lack of clear and specific pricing regulations, the vague policies, and unsound laws. The vague policies make the administration task very difficult. Currently, efforts to administer the FIE prices are plagued by the following problems: One, the FIE's generally have to pay higher prices for goods and materials and services than the state-run enterprises, and the FIE's object strongly. Two, since most FIE's sell a large percentage of their products in the domestic market, their prices are also generally higher than that of the state-run enterprises. Three, certain special pricing policies that apply only to the FIE's have an adverse effect on the state-run enterprises and are not conducive to fair competition. This is true especially with respect to hotel prices. Four, some foreign businesses jack up their cost by raising the price of machinery, parts, and raw materials they import, or they lower the foreign sale price of their products either directly or indirectly, and via this method of price transfer, they can show less profit and avoid paying taxes here while increasing the profit of their parent companies. Five, our foreign investment policy is inconsistent with our foreign trade policy. We have begun trading categories one and two products with foreign countries and have strengthened their management, but if we cannot control the FIE's at the same time, we will only tie the hands of the state-run foreign-trade enterprises and put the completion of the state's foreign exchange income plan and the administration of domestic prices in a passive situation. Six, the foreign investment policy is inconsistent with our industrial

policy. The policy of letting the localities come up with their own favorable terms to attract foreign investment does not facilitate the implementation of the state's industrial policy. The inconsistency between the pricing system and the industrial policy is a factor: If the price of scarce goods is too low, foreign investors will put their money in goods already in abundant supply, thus exacerbating the poor industrial structure. Seven, there is no consensus on whether we should, and how we should, supervise the FIE's more closely.

In my opinion, we have a large number of FIE's today. They have become an important component of China's national economy, and they are in urgent need of being put into a centralized administration track. We should strive to strengthen and perfect our administrative work in this area, including price management. Specifically, the administration of prices the FIE's charge for goods they sell in the domestic market is the focal point of price administration, and it is also a critical issue in attracting foreign investments. The main reason foreign businesses invest in China is to get into China's market. Therefore, how we examine and approve the quantity of goods the FIE's sell in the domestic market and how their domestic sale prices are determined are very important not only to the foreign investors but also to the domestic market and industries. In this regard, we should do the following: (a) We should analyze and forecast the quantity and the mix of goods the FIE's will sell in the domestic market and have a good grasp of the basic situation. In the feasibility study reports submitted by the 30,000 registered FIE's, the foreign sales percentages were very high, but after they went into production, enterprises would ask to expand the domestic sales portion. We urgently need to make a scientific forecast of exactly how large this domestic sales portion is and how they are distributed among the different trades and industries. (b) In coordination with the state's industrial policy, we should set different domestic sales percentages for different industries. We can increase the share of domestic sales for trades and industries which we would like foreigners to invest in, and meanwhile we should implement reform in the state-run enterprises in those lines of businesses and allow foreign investors to purchase stocks and bonds and set up joint ventures or make indirect investments. In this way, foreign investments in these lines of businesses will increase rapidly. For industries that need protection, we should limit foreign capital input. This should include limiting the domestic sale of certain types of products. To extend favorable terms to foreign investors in accordance with the industrial policy means we should let the central government promulgate a preferential policy instead of letting the localities compete with one another by offering their own favorable terms. (c) How do we administer the domestic sale price of FIE products? In my opinion, we should neither give up control completely, nor should we manage them the same way we manage domestic product prices. These products basically fall within the scope of the market economy. There is basically no provision in the state plan to supply these enterprises with parity price raw

materials or energy resources, and so we can hardly put their products under the state's pricing system. In principle, when we administer the domestic sale price of FIE products, we should comply with the market management rules, comply with the law, and follow the usual international practices. First, we should set up a system of recordkeeping. In principle, the FIE's are free to set the domestic sale price of their own products, but they must be verified and checked by state-designated specialized accountants and recorded by the commodity prices administrations at various levels. Second, the commodity prices administrations must follow international practices and formulate anti-profiteering and antitrust policies. The government must intervene in all conducts that constitute profiteering and monopolistic behaviors.

Prospects and Countermeasures in Hainan Province's Foreign Capital Utilization in the 1990's—Liu Zenglu [0491 1073 6922], Research Assistant, CASS's Institute of Finance, Commerce, and Commodity

Prior to its becoming a province and a major special economic zone in 1988, Hainan's foreign capital utilization was relatively small in scope, and its development was relatively slow. In the three years from 1985 to 1987, the contracted foreign capital utilization was \$83.47 million, and actual input came to \$68.13 million. Its foreign capital utilization during this period was marked by the following characteristics: One, the scale was small and progress was slow. Two, development was uneven—sometimes it surged ahead, and sometimes it faltered. For example, actual foreign capital utilization had reached \$32.59 million in 1986 but fell back to \$9.11 million in 1987. Three, most foreign capital utilization was in the form of direct foreign investment; only a small percentage was in the form of foreign government loans in specific years. For instance, it utilized \$2.44 million in foreign government loans in 1985, which marked the year with the highest utilization of loan funds, and even then they constituted less than one-tenth of that year's foreign capital utilization. Other forms of foreign investment, such as compensatory trade, processing and assembly, and international leasing, were almost nonexistent. In 1988, Hainan became a province and set up a major special zone, and the scope of foreign capital utilization grew quickly and underwent rapid development. Between 1988 and 1990, despite the "4 June" political disturbance in Beijing in 1989, the central government's policy of economic contraction, and the adverse investment environment marked by the "market slump," Hainan held steadfastly to the Central Party Committee's guiding principle of reform, opening up, and creation of a major special zone. The provincial government promulgated a series of favorable policies to encourage foreign investments and extended special treatment to foreign businesses with regard to taxation, operation, transfer of land ownership, foreign exchange restrictions, import-export restrictions, and production and management rights. For these reasons, in the latter part of the 1980's, Hainan's foreign capital utilization began to show steady growth. In 1988, its contracted foreign capital utilization came to \$399 million, with

actual input of \$128 million. In 1989, the province set up 375 new FIE's, with total investment of \$449 million. The foreign investors' share of agreed investment was \$278 million, 61 percent of the total investment, and actual input came to \$107 million, 38.7 percent of the total foreign investment. In 1990, the agreed foreign capital utilization was \$129 million, and the actual input by year-end came to \$192 million. Here, we must make a point of mentioning the fact that the political upheaval in Beijing in 1989 had a definite impact on the introduction of foreign capital, but this effect soon disappeared. This is obvious if we look at the changes in foreign capital utilization during each of the four quarters in 1990: In the first quarter, foreign capital utilization came to \$14 million, a 90.3 percent plunge compared to the same quarter in the previous year; \$31 million was put to use in the second quarter, a 55.1 percent decrease compared to the same quarter a year earlier; \$34 million was put to use in the third quarter, a 2.7 percent decline compared to the same period a year earlier, and by the fourth quarter, \$50 million was put to use, a 42.6 percent increase compared to the same period a year ago. Province-wide, actual foreign capital utilization grew by 17.9 percent compared to the previous year.

Currently, some people are concerned about the construction of the Hainan Special Zone and its future prospects. This is mainly because of their lack of confidence in the prospects of Hainan's foreign capital utilization in the 1990's. But I think the scope and rate of development of Hainan's foreign capital utilization in the 1990's will surpass the 1980's. Specifically, it is possible that its average annual foreign capital utilization will exceed the \$250 million level. This figure is 80 percent higher than the average of \$140 million a year in the last three years of the 1980's and 40 percent higher than the 1990 level, but it is a realistic figure. Some people say that since it is the central government's established general policy to utilize foreign capital to construct and develop Hainan, and since its current foreign capital utilization is less than one-fifth of its total investment in capital construction projects (in 1990, the capital construction investment in the people-owned units came to 2.207 billion yuan, 419 billion yuan of which came from foreign investors, and the foreign capital utilization rate was 19 percent), should the scope of introduction of foreign capital be greatly expanded? This has much to do with Hainan's RMB matching funds, how much bank loan fund and share capital it has, its goods and raw materials supply situation, and even with the improvements in its investment environment. To pursue a rate of economic development which exceeds the capability of its objective economic conditions by utilizing foreign capital is unrealistic. According to the above estimated average annual rate of \$250 million, Hainan's total foreign capital utilization in the 1990's will top \$2.5-3 billion, more than 40 percent of its capital construction investments. This rate of development and scope of foreign capital utilization is entirely attainable. Thus, in 1991, Hainan is putting the emphasis of its foreign capital utilization on cooperating

with the large foreign corporations and enterprises, and with regard to the format of foreign capital utilization, it is putting more emphasis on foreign loans, mainly by expanding the utilization of low-interest, long-term loans from foreign governments and international financial organizations. The 1991 plan calls for 89 key projects in the next few years, with total investment worth \$2.584 billion, plus 1.09 billion yuan in RMB. This year's planned input will be \$127 million, plus 490 billion yuan in RMB. It will include the 26 projects already contracted and included in the province's key direct foreign capital utilization plan and which will begin construction this year. Their total investment will come to \$232.50 million, with contracted foreign capital worth \$164 million, and the year's planned actual input will be \$86.89 million.

Hainan's foreign capital utilization in the 1990's may be promising, but many problems remain. Competition for foreign capital is intense. Some Southeast Asian nations have also set up free trade zones in recent years and have implemented all kinds of favorable policies to attract foreign investments, and they are challenging Hainan in the utilization of foreign capital. In addition, some of China's coastal cities, especially the Shanghai Pudong Development Zone, no doubt have an impact on Hainan's effort to bring in foreign capital. Faced with this grim situation, if Hainan is to realize its foreign capital utilization prospects and goals in the 1990's, it must take effective countermeasures: (1) We should further improve Hainan's investment environment, especially the "soft" [intangible] environment. We must put the preferential policy the central government is extending to the special zones to ample and full use. We must strengthen the various policies and rules and regulations pertaining to foreign capital utilization and make them more clear and specific so as to improve the intangible investment environment as soon as possible and entice foreign businesses to invest in Hainan. (2) We should create the right conditions and gradually orient the Hainan SEZ toward the market economy and sever its economic ties with the mainland and truly implement a unique economic policy. As an ordinary special zone that serves as a foreign economic and technological window, Hainan will not amount to much in comparison with Shenzhen and Zhuhai. But if we turn Hainan into a market economy and develop and manage it as such, its role will go far beyond that of the other SEZ's as economic and technological windows, but will pave the way for the recovery of Hong Kong and Taiwan and the implementation of the strategic policy of "one nation, two systems," and it will also give great impetus to promoting Hainan's economic and technological development. (3) We should continue to expand the use of medium- to long-term, low-interest loans provided by foreign governments and international financial organizations. Today, Hainan's development has only just begun; it is economically and technologically backward; its infrastructure and other investment environment are very imperfect, and under the circumstances, it is very

unrealistic to put the emphasis of foreign capital utilization on direct foreign investments. We should further liberalize our thinking and increase the use of intergovernment, long-term, low-interest loans. (4) We must continuously readjust the mix of foreign investments. In the 1990's, investment in Hainan should still emphasize energy, transportation, post and telecommunications, but we should further increase the input in agriculture, the processing industry, and high and new technologies and strive to build a flourishing externally oriented economy in Hainan in the 1990's and establish a firm economic and technological foundation.

The Changing Investment Behavior of Foreign Businesses in China's Commercial Sector—Wang Zhenzhong [3769 2182 0022], Ph.D., CASS's Economics Institute

Under existing Chinese regulations, foreign investors are prohibited from investing in our commercial sector, including domestic commerce, foreign trade business, the supply and marketing of goods and materials, and storage and warehousing business. But all indications are that foreign businesses are gradually infiltrating China's commodity circulation sector. For example, in a certain city, a Chinese clothing company has linked up with a transnational foreign enterprise to open a new department store on a world-famous commercial street. The Chinese company is using its store on a busy commercial street as business site while the foreign company finances the remodeling and construction of a new department store under the name of a joint venture it has set up in one of the special zones. The foreign company has obtained the right to operate and manage the department store for 15 years. During this period, it will pay the Chinese company 800,000-960,000 yuan RMB in after-tax profit a year, and at the end of the 15-year term, it will transfer the store to the Chinese company free of charge, making it the latter's permanent fixed asset. To circumvent the existing regulations, the Chinese company alone appeared before the authorities when the application was submitted to the relevant department. They called the department store project an "internally linked" project, thus skillfully evaded the Foreign Economic and Trade Relations Commission's scrutiny. This kind of cooperation between Sino-foreign investors by disguising a project as an "internally linked" project in order to get into China's commercial sector has been called "a new breakthrough of foreign investments in China," and some have predicted that the "precedence has been set, and solid ice has been broken." How should we treat this issue from the point of economic theory?

First, is this an "internally linked" project or is it a "foreign-introduced" project? Insiders say that the department store's funds actually came from the profit accumulated by the foreign investor's joint venture in China, and the financing is under the name of the company's joint venture in China, and therefore it should be considered an "internally linked" and not a "foreign-introduced" project. In fact this is making a poor excuse for the foreign business's intrusion in

China's product circulation sector. Everyone knows that an investor owns tangible and intangible assets. Capital is one kind of tangible asset. The accumulated profit the foreign business's joint venture in China makes is but a part of its tangible assets. There is nothing unusual about a foreign business's practice of reinvesting the profit its joint venture earned in China. This is a normal practice for most transnational enterprises. The government of the host nation which is trying to attract direct foreign investments is familiar with this practice and may even extend some kind of preferential terms, depending on each country's own situation. In fact, when a foreign investor reinvests the accumulated profit earned by his joint venture (call it Enterprise A) in another enterprise (call it Enterprise B,) the result of this foreign investor's investment is a new enterprise, Enterp rise C. Enterprise C created under the circumstances cannot be considered an "internally linked" but is a "foreign-introduced" project. Secondly, from the point of enterprise (project) control, the above-mentioned "internally linked" project is in fact a direct foreign investment, because not only did the money used to build the new department store come entirely from the foreign business, but the foreign business also has a 15-year operation and management right. A foreign investor's basic motive is to obtain the right to control the enterprise (or project). The foreign business [in this case] has a long, 15-year, management contract, and this time element in itself proves that the so called "internally linked" project is a bona fide foreign-invested project. The above analysis proves that when a foreign business takes part in capital and technological cooperation, so long as it is running the business or taking part in the operation of that business, it does not matter whether the investment is in the form of securities or debt, it should be considered a direct investment. This is because the movement of funds under this kind of investment changes depending on who is in control of the enterprise's operation right or management right.

Finally, there are two points which should be clarified: (1) From the point of the changing international environment, whether we are talking about the Uruguay round of negotiations or the trend toward free trade blocs and regions, both will lead to an increase in direct foreign investment in the service industry. But the decontrol of the service industry, especially the commodity circulation sector, should be tied to progress made in the development of China's commodity economy and to the ability of the Chinese personnel to handle the negotiations. More importantly, we must standardize the conduct of all Chinese and foreign investors in all sectors and prohibit the localities, departments, and enterprises from making excuses to do as they please and blindly ad vocate "adventurism." If there is a rash of nonconformist behaviors among the foreign investors, it will have an adverse affect on the macro-management of China's attraction of direct foreign investment. The relevant government departments should begin to work on the pertinent rules and regulations pertaining to economic cooperations with Chinese

enterprises in the name of the "three kinds of wholly or partially foreign-owned enterprises." (2) From enterprises' micro cosmic viewpoint, because the Chinese investors basically are not familiar with the market situation, many have been taken advantage of in the business negotiations. Take the aforementioned department store for instance. One of the reasons the Chinese side was willing to "play crooked to save the shop" is the chance to make some money. Relevant data show that its income will include a building worth 11 million RMB plus 800,000-960,000 yuan a year in after-tax profit, and at the current exchange rate, this amounts to nearly \$5 million, averaging \$330,000 a year. This to a Chinese company that longs to "sit back and collect dividends" is a substantial income. But in fact this is not how things will eventually turn out, as proven by a hotel joint venture in Beijing—advertisement alone costs \$380,000 a year. Thus, the Chinese investors are in urgent need of improving their negotiation skills to avoid making the mistake of "giving up their birthright for a bowl of porridge."

Developments in Ningxia's Foreign Trade

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9 Sep 91 pp 1, 4

[Article by Jiang Senlin (5592 2773 7792): "Ningxia's Foreign Economic Trade"]

[Text] There have been enormous changes in the foreign economic trade of Ningxia during the the past decade or so of reform and opening to the outside world. Ningxia has turned toward the world market in a stable way, continuously upgrading product quality, with different types of operations and a varied export commodity mix.

Swift developments in foreign trade. In the early period after liberation, Ningxia had only a small quantity of commodities which were exported, through Tianjin harbor after procurement by Gansu Province. Foreign trade was not developed until after the establishment of the autonomous region in 1958. There were only 45 kinds of commodities, mainly agricultural and sideline products. Beginning in 1985, each of Ningxia's foreign trade enterprises all developed independent export businesses instead of purely engaging in allocation as they previously had. They directly engaged in foreign negotiations, business transactions, export shipping, and foreign exchange settlement. During the Seventh Five-Year Plan, they accumulated \$211.24 million in foreign exchange. The year 1991 is a year of important reform in China's foreign trade system; it is the first year in which foreign trade exports will be entirely a matter of independent responsibility for profit and loss instead of being subsidized by the state. In the first quarter, Ningxia's foreign exchange earnings from exports exhibited good month by month increases. In the first half of 1991, exports earned \$50.27 million in foreign exchange, fulfilling 82 percent of the annual plan, up 61 percent over the same period in 1990. Of this figure, local independently run exporters earning foreign exchange

completed 88 percent of the annual plan. This growth rate is among the top in China.

New developments in export commodity variety. At present more than 100 varieties of Ningxia commodities are on the international market. In the past decade, the number of newly developed export commodities have doubled over that prior to reform and opening to the outside world. Top quality cashmere, primary flour, ferrosilicon, and tires make their way all the way to the markets of West and East Europe, North America, Southeast Asia, and Hong Kong and Macao. In the first half of 1991, Taixi's coal exports and foreign exchange earnings have respectively doubled and broken the record for a one-half year period. Every year, food grains other than wheat and rice and various beans from the southern mountainous area to the tune of several million U.S. dollars in finished products go on the world market. In March 1991, the headquarters of the Ningxia Number One Northwestern Coal Machinery Plant participated in international bidding on coal machinery with Turkey's TKA County. In competition with seven others, it won the bid, for the first time putting on the international market 41 units of three kinds of high quality general mining and general mining, leveling and scraping transport machinery.

General improvement in respect for quality, protecting reputations and rate of agreements honored. In recent years, enterprises engaging in foreign trade in Ningxia which promote exports have given premier place to respecting quality and protecting their reputations. Notable results have been made with regard to strict management and checking each step of negotiations, concluding transactions, shipping exports and settling foreign exchange. Products from ferrosilicate plants in Shizuishan and Pingluo once again went on the Japanese and international markets in June of 1990. In September they were followed by 452 tons of industrial silicon going on the American market for the first time from a smeltery in Zhongwei County. In May 1990, at a Soviet Union-East Europe Trade Negotiations Conference in Harbin, Ningxia bearings, leather, fur clothing, textile products, aluminum manufactured goods and light industrial products for daily use worth more than 20 million Swiss francs went on the Soviet and Eastern European markets. At a meeting to conclude business at the end of October 1990, customers from 28 countries and regions placed orders for 66 commodities from Ningxia; the transactions concluded broke through the \$20 million mark. In recent years, 19 new products developed in Ningxia such as Lanshi leather, knit gloves, pureed garlic, caustic soda and soda have gone on the international market for the first time. There has been a general rise in the rate of agreements honored by foreign trade enterprises. Since 1990, there have been no breaches of contract or damage claims. During a clothing transaction not long ago, the Ningxia Light Industrial and Textile Product Import and Export Company was praised by its foreign customer. In order to avoid delayed delivery of goods to the customer due to insufficient rail transport, the company arranged for a special

car of the items to go directly to Beijing Airport for air shipment abroad so that the foreign customer would receive timely shipment prior to the selling season.

Notable changes in export commodity mix. Since reforming and opening to the outside world, Ningxia has made a relatively stable base for the supply of goods by considering its own resource superiority and economic conditions and adapting to international market demand. It fully utilized its superior energy resources and actively developed related products, successively establishing specialized production bases and mines for major exports such as Chinese wolfberry fruit, black melon seeds, cashmere, carpets, Chinese ephedra [*Ephedra sinica*] essence, ferrosilicate, tires and coal. At present, a group of backbone commodities which annually earn more than one to \$10 million in foreign exchange have been developed. Industrial mining products account for more than 70 percent of all export commodities. Ningxia has created an export product mix of mainly industrial and highly processed industrial goods, changing the former, many-year long simple reliance on a traditional product mix of "red, yellow, blue, black and white" products.

Growth of imports promotes development of Ningxia's industry, agriculture and scientific and educational culture. In the more than a decade of reform and opening to the outside world, Ningxia has more than doubled the foreign exchange it has spent on imports compared to the period before 1979. The imported commodities involve areas such as industry, agriculture, transportation, scientific research, education, health and sanitation. Ningxia's closed economy has begun to open. The Wuzhong Woven Plastic Bag Plant imported a self-controlled woven plastic bag production line from the former Federal Republic of Germany [FRG], giving new life to a nearly bankrupt small factory; output value increased by more than 10 million yuan, with high product value, low consumption and good economic returns. The Wuzhong Instrument Plant won the State Economic Commission's top prize for renovation through imported technology by introducing to China automatic regulating valve technology from Japan.

Preliminary formation of three-point network comprising Ningxia, the coast and overseas points. Since 1979, the number of Ningxia's specialized foreign trade import and export companies has increased from three to eight. In addition, trade organizations have been set up in the special coastal zones of Guangzhou, Shenzhen, Zhuhai, and Hainan. At the same time, Ningxia's reach has been extending abroad actively, with trade organizations opened in Thailand, Hong Kong, Egypt, Malaysia and other countries and regions. At present, commodities from Ningxia reach Hong Kong and Macau, are found in Japan, span Europe and the United States, and are charging into the Middle East. They reach export markets of more than 1,000 trading partners in more than 50 countries and regions. Since the second half of 1990, coal from Taixi came upon the French market for the first time. The first group of light industrial, food and

chemical products went to Norway and Argentina, concluding more than \$4 million in business transactions. At the Chinese Economic Success Exhibition held in Moscow in June 1990, Soviet women admiringly fondled items from Ningxia's Number Two Fur Clothing Works because of their soft feel, spotless whiteness like the clouds, natural curves and appropriate graceful styles.

"Zero" breakthrough realized in labor-business cooperation and foreign contract work. A large group of locally born and bred laborers have gone abroad to 10 countries as far as Egypt, Kuwait, the United Arab Emirates, and Northern Yemen to undertake more than 10 engineering and construction projects. The quality of the personnel and their work has won the wide praise of their cooperative partners. In 1985 the Ningxia Islam International Economic Technology Cooperation County was established. In the fall of the same year a number of contract engineering and cooperative labor projects and agreements and letters of intent were negotiated with foreign businessmen. Up to 1991, Ningxia has sent more than 2,800 laborers to work on projects abroad. They were contracted to build a total area greater than 500,000 sq m worth more than \$55 million.

Suggestions To Improve Foreign Trade System

92CE0038A Beijing *GUOJI MAOYI WENTI*
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[Article by Xiang Dongliang (0686 2639 5328): "MOFERT Journal on Suggestions for the New Foreign Trade System"]

[Text] Reform of the new foreign trade system has been underway for several months. This writer has recently carried out wide-ranging studies of export commodity production enterprises, trading companies, and work units which use foreign exchange, and the writer has come to the conclusion that in order to further perfect the foreign trade system, the relevant departments must strengthen or improve work in the following four areas:

I. Expand the use of swap market foreign exchange and establish an open swap market.

In exchange control document 188 (89), the State Administration of Exchange Control on 23 March 1989 handed down the "Procedures for Guiding the Flow of Swap Market Foreign Exchange." These procedures strongly prohibited the use of swap market foreign exchange in six areas. Beginning 1 January this year, production enterprises were no longer allowed to retain foreign exchange earnings, which, as a result, have become concentrated in the hands of foreign trade enterprises, while other enterprises have had to use swap market foreign exchange. For this reason, the use of swap market foreign exchange must be broadened. In addition to the areas in which the procedures permit the use of such funds, they must be allowed to be used in four more areas: 1) trips abroad; 2) repayment of foreign exchange

loans made by domestic and foreign lenders to enterprises and public institutions; 3) imports of high quality durable consumer goods (which sell well); and 4) other uses which have been approved by the State Administration of Exchange Control and its subordinate agencies.

Since the new method of foreign exchange earnings retention was implemented, retained foreign exchange earnings have mainly been concentrated in the hands of provincial level corporations. In order to accelerate adjustments, foreign exchange swap markets, which were originally very scattered, should be unified into a single, open market. In foreign exchange swap markets, local markets should serve as foreign exchange brokers, while some trading companies and large users of foreign exchange should act as individuals in such markets. When participating in foreign exchange auctions run by provincial level foreign currency exchange centers, brokers can only buy and sell foreign exchange on behalf of clients, while individual participants can only buy and sell for their own account. In this manner, trading companies will be able to absorb foreign exchange in a timely manner and work units using foreign exchange will be able to obtain it in a timely manner. Swap markets would become more prosperous and active.

II. The method of collecting foreign exchange from export activities and examining sales must be improved.

The method for managing CSH went into force on 1 January of this year, and it has been very successful in strengthening control of foreign exchange collections on imports, increasing these collection rates, increasing the state's foreign exchange revenues, and preventing foreign exchange from leaking out of the country. However, trading enterprises everywhere have objected that the current method of CSH has two problems: First, excessive red tape not only increases the work load of trading enterprises, but also impedes efforts to speed up collection of foreign exchange. Second, some aspects of the method are irrational or conflict with other operations. This writer feels that the following actions should be taken to improve CSH:

1. Methods of examining and approving sales should be simplified. For example, with respect to the settling of self-initiated vouchers we could combine the method in which they are reviewed and approved one transaction at a time and the method in which they are reviewed and approved once per quarter, and the procedure of sending the counterfoil in advance should be simplified. A procedure should be adopted in which counterfoils and sales examination vouchers are examined together. With regard to exporting agencies with large operations, we should try out the following system: their own sales examination personnel first examine sales on a trial basis, then send foreign exchange in large batches periodically to exchange control agencies, which will examine sales. With respect to agencies which are overdue in their foreign exchange collections, we should not add more review and approval hurdles; they should

be allowed to get it back as soon as possible. There should be no limits on the number of sales examination vouchers these agencies are allowed to take, and they should be able to pick them up without delay.

2. The system for managing CSH must be revised and perfected. For example, it should not be required that freight insurance charges be paid out of the current transaction; they should be allowed to be paid out of the proceeds from the following export transaction. In order to accelerate the examination and allocation of retained foreign exchange, the regulation that foreign exchange cannot be retained until after the examination of sales should be eliminated. These two operations should be carried out separately and simultaneously, and should not impinge upon each other. In order to enable exporting enterprises to use the foreign exchange earned in their operations to pay off foreign loans, the regulation that only the agency which issues a voucher can examine sales should be eliminated. All branch foreign exchange control bureaus should implement a system of unified examination of sales to foreign firms in order to facilitate the promotion of change place agent exporting.

III. We must fully bring the enthusiasm of export commodity producers into play and correct the relative positions of foreign exchange earning enterprises and trading companies.

In addition to bringing into play the enthusiasm of trading companies for earning foreign exchange via exports, if China's foreign exchange earnings are to be increased we must also fully bring into play the enthusiasm of export commodity producers for earning foreign exchange. It is not that trading companies do not wish to engage in export activities; rather, costs in terms of foreign exchange are low and there are few commodities which sell well on international markets. For this reason, we must concentrate our attention upon foreign exchange-earning production enterprises. Reform of the trading system should facilitate efforts to bring the enthusiasm of production enterprises into play, improve the export commodity mix, and enhance export commodity quality. This is the key to resolving our problems. There are two aspects of the new trading system which we feel are in need of improvement: 1) Foreign exchange enterprises are no longer allowed to retain a portion of those earnings. 2) Of the 30 percent of foreign exchange earnings which are turned over to the central government in exchange for renminbi, one-third are disbursed to production enterprises by trading companies, which themselves keep the other two-thirds. We feel improvements are required for the following two reasons:

1. Eliminating foreign exchange retentions for production enterprises has made it impossible for them to be assured of timely supplies of foreign exchange for necessary imports (such as technology upgrades, imports of raw materials, etc.) and trips abroad. This has affected the enthusiasm of production enterprises for earning foreign exchange.

2. The renminbi which are obtained in exchange for foreign exchange handed over to the central government are generally disbursed by the Ministry of Foreign Economic Relations and Trade (and its subordinate commissions) in their entirety to trading companies, which then pass on one-third of this money to production enterprises. This may give rise to two problems: 1) Because exchange rates fluctuate with the market, enterprises cannot carry out production on the basis of planned costs, and they may even suffer losses, which affect the economic benefits of foreign exchange-earning enterprises. 2) Because production enterprises do not understand international market conditions very well, and because they are scattered far apart, trading companies cannot deliver them their portion of the returns from exchange earnings handed over to the central government in a timely manner (and may even fail to do so entirely), causing exchange-earning enterprises to suffer losses. For this reason, this writer feels that trading companies should remit such funds to production enterprises when they purchase export commodities from them.

IV. Planned control of export tax rebates needs improvement.

Planned control of export tax rebates went into force this year. Export tax rebates have been linked to quotas for exports and the amount of foreign exchange earnings to be turned over to the state; there will be no export tax rebates for exports in excess of planned quotas. To a great extent, this has dampened the enthusiasm of trading companies for earning foreign exchange. Without tax rebates, exports lose money, which forces enterprises to forgo exports in excess of planned quotas. This runs counter to efforts to encourage enterprises to earn more foreign exchange. For this reason, it is suggested that tax rebates be made for all exports.

Re-Exporting Foreign Invested Enterprises

92CE0142A *Beijing GUOJI MAOYI /INTERTRADE/*
in Chinese No 8, 27 Aug 91 pp 33-34, 32

[Article by Song Weinong (1345 0251 6593), affiliated with the Hangzhou Municipal Foreign Exchange Control Office: "An Inquiry Into the Product Re-Exporting Difficulties of Foreign Invested Enterprises"]

[Text] During the decade that China has been reforming and opening up to the outside world, and introducing foreign investment, a large number of our foreign invested enterprises (FIE's) have taken full advantage of the foreign trade rights granted to them by the state, as well as their own many advantages, by orienting themselves toward export earnings and the international market arena. They have re-exported most or all of the products that they produce back to the international market, and take an active part in international market competition, which has increased China's international market share, and turned them into a vital new force through which China earns foreign exchange from

exports. These FIE's have also achieved good economic efficiency for themselves, grown rapidly, and contributed to China's favorable balance of international payments. But, at the same time, because a considerable number of our FIE's have had very low product re-export rates, or have not even been able to re-export at all for some time now, they are experiencing many difficulties, such as being unable to maintain a favorable foreign exchange balance, having to compete for markets with domestic enterprises, and are unable to enjoy the preferential policies that were granted to them by the state. As FIE's are being established and put into operation in increasing numbers, these difficulties are becoming increasingly more glaring. The low product re-export rates of these FIE's are caused by the following factors:

1. Investment intention differences: Because part of the investment in China by foreign firms is aimed at expanding the production of parent companies and increasing their international market share, most foreign firms have set their sights on China's huge and as yet not fully exploited markets, hoping to capture Chinese markets and make great profits through direct investment, setting up of production enterprises in China, and producing and marketing products on-site. On the other hand, China's investments are mainly intended to produce products that are up to advanced international standards by introducing foreign funds, technology, management expertise, and international marketing channels. While this is directed primarily at acquiring import substitutes and filling up our gaps, it is even more directed at re-exporting to the international market, expanding China's foreign trade, and increasing our foreign exchange earnings. The huge differences that exist in our bilateral investment strategy intentions are bound to be reflected in the regular operating strategies of FIE's, and lead to difficulties in re-exporting their products.

2. Economic efficiency limitations: The contrast between the economic efficiency of re-exporting and marketing domestically FIE products is a key limiting factor in the re-exporting of these products for the following reasons: 1) The cost of exporting products for foreign exchange is high. China's FIE's are generally experiencing rising production costs, because they are able to acquire very few of their production needs, such as raw materials, water, and electricity, through state-planned distribution. Therefore, they must rely mainly on beyond-plan purchasing. Staff members and workers in FIE's earn higher wages than those in domestic enterprises. Our labor productivity is lower, our product quality is unstable, our raw materials are poor in quality and high in cost, and our production scope is unable to meet the demands of an economy of scale, all of which make our production costs high. A high percentage of our FIE exports are still primary products, low in value, and uncompetitive. Product re-export channels are operated by foreign firms, which force prices down and sell on commission. All of these factors keep the cost of exporting FIE products for foreign exchange high. The

losses, and even higher ones, which are incurred from exporting, mean the more exports the more losses, and vice versa. 2) Domestic sale profits are high. Because FIE's import foreign machinery, equipment, technology, and management expertise, and can import high quality raw materials directly from international markets, the products that they make and their quality are generally better than those of similar domestic enterprises, while being cheaper in price than imports. This means that domestic production plants prefer to purchase FIE products. Because China's domestic markets are completely cut off from international markets, and our domestic market prices are often higher than international market prices for similar commodities, FIE's prefer domestic marketing for its increased economic efficiency. 3) The steady fall in China's adjusted foreign exchange market rates in recent years has affected efficiency in re-exporting FIE products in the following two ways: 1) the lower efficiency and decreased profits of export enterprises after market adjustments of similar amounts of foreign exchange investment, due to the drop in adjusted foreign exchange rates, has made FIE's prefer domestic sales; 2) enterprises with little or no previous foreign exchange earnings prefer defraying import payments and saving energy by using the high profits from domestic sales to purchase adjusted foreign exchange, to losing money from exporting.

3. S&T gaps: China's still generally backward S&T levels have made it hard for the products made by some FIE's to be re-exported to the international market due to the following industrial technology problems: 1) product quality not meeting international market demands, or being unable to obtain international standard authentication has affected the re-exporting FIE products; 2) a whole series of problems in producing high-tech and technology-intensive products, such as the gaps in domestic and foreign S&T levels, the proficiency of domestic workers, coordinated and complete production of products, and product development, popularization, application, and production scale, have made it impossible for FIE's to make products that can be re-exported to compete with brand-name ones on international markets.

4. FIE re-export incapabilities: 1) Some enterprise foreign investors are certainly not firms that produce or market the types of products made by FIE's, and do not have the relevant international marketing experience or channels, so are unable to perform the task of re-exporting. Because the aim of other foreign investors is to promote the sale of equipment they refuse to have anything to do with re-exporting. 2) Because FIE's managed mostly by Chinese lack international trade experience and skills, do not understand international markets, and do not have links to international marketing channels, they are unable to re-export their products.

5. Feasibility study mistakes: When conducting feasibility studies before they are established, some FIE's regard feasibility studies as "studies to be criticized," because they do not understand the material completely,

are not up on international market conditions, or are stubbornly striving to get their projects underway. Once they go into operation, their products are already unmarketable, obsolete, or saturated on international markets, so that they are unable to be re-exported. Others do not conduct thorough technical feasibility studies, so that, while re-exporting their products may have theoretical feasibility, once in operation it certainly has very little technical feasibility, such as in the growing of fresh flowers or raising of goldfish. Yet others, whose products involve licenses or quotas, and who do not do the necessary licensing and quota work in the feasibility stage, are unable to achieve their projected re-export rates after they go into operation due to licensing and quota problems.

6. Contract and charter provision defects: While FIE contracts and charters generally contain set product re-export provisions, many contract and charter provisions are not strict enough. Because they do not set realistic conditions for things, such as product re-export varieties, percentages, schedules, channels, pricing principles, account settlement methods, and responsibility limits, the inability to fulfill responsibilities makes actual re-exporting impossible.

A deeper analysis shows that the basic reason for the low product re-export rates of FIE's is our longstanding undeveloped commodity economy, and our great estrangement from world economic operations. This is expressed in our transition to an externally oriented economy from a great inadaptability to and difficulty in participating in international markets, the international economy, and world trade.

China is still experiencing a shortage of foreign exchange. Making the RMB freely convertible with foreign currencies will require much development of our economy and great improvements in our foreign trade exporting and international balance of payments. Thus, a favorable foreign exchange balance in FIE's will depend on self-balancing for a long time to come, and on exporting a sufficient quantity of products to acquire the necessary foreign exchange income to do things, such as pay for imports. Moreover, while China is an enormous market, our productive forces are generally still relatively backward, our economy is undeveloped, and our social consumption is still quite low, our market capacity is limited, or could be said to still contain limitations on certain goods (such as automobiles). Such objective factors mean that FIE's must put their major sales emphasis on the international market. In addition, the advanced foreign technology and equipment imported by FIE's must be used to manufacture advanced, high quality, internationally competitive, and re-exportable products, in order to prove that the technology and equipment is really advanced.

Thus, that China's national conditions require the FIE's established in China to re-export most or all of their products, is determined by objective necessities and practical demands.

The key to raising the product re-export rate of our FIE's will be to perform the following tasks well:

1. We must choose good partners for joint ventures and contractual joint ventures. We should choose foreign firms as joint and contractual joint venture partners with domestic enterprises from those that are engaged in the production, research, and marketing of the proposed joint venture products, have rich production and management experience and marketing channels, and whose investment aims are aimed at expanding parent company output and increase international market sales volume and shares. Such projects have a high rate of success and ensure product re-export, with product re-export rates being generally high, even as high as 100 percent.

2. We must choose good products. In order to ensure that FIE products can be successfully re-exported to the international market, we must choose good products to be made, such as those that are in great demand on international markets, or have gained market acceptance and rapidly increasing market capacity after being developed, while avoiding by all means the production of those that are already obsolete, saturated, or declining on international markets.

3. We must acquire good international marketing channels. Under China's current conditions of domestic enterprises generally not having international marketing experience and channels, we must ensure that signed FIE contracts and charters contain the re-exporting duties of the foreign firms, and regard re-exporting provisions as key ones to be clarified in contracts. Re-exporting provisions must clearly set forth items, such as FIE re-exporting duties, schedules, products, quantities, pricing principles, account settlement methods, and responsibility limits (or detailed product re-export agreements must be signed as valid contract attachments). Moreover, once FIE's go into operation, they must take active steps to create the conditions for developing their own international trade routes, and strive to export their products on their own within a fairly short period of time.

4. We must guarantee rigorous export quality control. FIE's must exercise strict quality control, ensure production of exports that conform to the quality criteria set forth in orders by foreign firms, and ensure stable product quality. Only in this way can they establish good product reputations and solid marketing relations, and originate their own marketing brand names and trademarks. As to those products that require international criteria authentication, such authentication should be acquired promptly once in operation, so that these products can successfully enter the international market at good prices.

5. We must strive to reduce the cost of acquiring foreign exchange. FIE's must take conscientious steps to reduce their cost of acquiring foreign exchange, such as improving their labor productivity, reducing their raw

material consumption, operating at economy of scale, improving their product quality, and making full use of their foreign trade rights to purchase cheap and quality raw materials on international markets. This will ensure that they earn profits, and even high ones, instead of sustaining losses from exporting their products, in order to change the situation of foreign sales earning less than domestic ones, and the more exporting, the greater the losses.

6. We must conduct conscientious, meticulous, and responsible early-stage feasibility studies. In particular, we must conduct thorough, comprehensive, and meticulous studies and demonstrations in areas, such as markets, products, prices, development trends, and sales capabilities, and draw up soundly and reliably based, fully demonstrated, and complete feasibility study reports, in order to lay the groundwork for successful operation and good future economic efficiency.

7. All responsible government departments must take active steps to provide a good external environment for, support, and promote the development of export business by FIE's. They should take reasonable steps to resolve licensing and quota problems involved in FIE exporting. Export production needs for raw materials, water, power, and gas should be provided for in state plans and ensured as to quantity and price. Priority should be given to arranging transportation and overseas telecommunications links for exporting of FIE products. Foreign economic relations and trade departments should publish international market information promptly, guide and coordinate FIE exporting, organize FIE participation in activities, such as the Guangzhou Export Commodities Fair, small local export commodities fairs, and overseas exhibitions, help FIE's to develop international marketing channels and establish sales networks, and run professional training classes for FIE's in areas, such as foreign trade negotiations, international accounts settlement, customs declaration, and commercial inspection, in order to improve their foreign trade professional skills and proficiency. Foreign exchange control departments must take active steps to develop and stimulate foreign exchange business, and strive to meet FIE foreign exchange needs. The People's Bank of China must develop new means of financing, so that in FIE foreign exchange collections, in addition to financing through foreign exchange adjustment and mortgage loans, diversified forms of financing suited to operations can be chosen.

Using Foreign Capital To Upgrade Old Enterprises

92CE0119A Beijing JINGJI RIBAO in Chinese
3 Oct 91 p 3

[Article by Mao Liben (3029 4539 2609) and Gan Zangchun (3927 5661 2504): "Several Problems Pertaining to the Use of Foreign Capital To Realize the Technological Transformation of Old Enterprises"]

[Text] Since opening up, the use of foreign capital to upgrade old enterprises has blazed a new trail for realizing the technological transformation of old enterprises in China. It not only has helped us overcome the problem of lack of funds but has also facilitated the bringing in of advanced technologies and management techniques. There are still some problems in the economic system and policy which must be solved before we can do a even better job and accelerate the pace of transforming older enterprises. In this article we would like to explore this issue (but without going into the issue of using loans extended by foreign governments and international financial organizations to upgrade old enterprises).

How To Select the Transformation Projects

Generally speaking, it is more economical, the payback period is shorter, and it is more efficient to upgrade old enterprises than to set up new enterprises. But we should still look carefully into individual enterprises and specific projects. For some old enterprises, the buildings and facilities are still in good condition; they already have water supply, electricity, heat, waste disposal capability, and good transportation, and their entire enterprise production may be held back or their product quality may fall short because one piece or several pieces of equipment are obsolete or because some production links are deficient. Under the circumstances, if we can upgrade that one piece or several pieces of equipment or the production links, we can bring their production capacity and standard up to par again. Investing in this type of project can prove very profitable. Conversely, for some old enterprises, the buildings and facilities are no longer usable. The plants may be too small; electricity and water supply may be inadequate; transportation is difficult, and there may be other inherent defects. Under these circumstances, we may be better off building new enterprises than to try to upgrade the old ones.

Thus, in order to attract foreign capital to upgrade old enterprises, first, we must conduct feasibility studies of specific projects and calculate and verify in detail the investment estimates, product sales, projected profit, investment return, and possible risks. We must have detailed information and utilize all channels and methods to publicize those projects to attract investors.

When selecting the transformation projects, we must diligently abide by the state's industrial policy and other pertinent regulations on bringing in foreign technologies and production equipment. Earlier, we introduced too many production lines that produced household appliances, pop-top cans, disposable beverage containers and so on. As a result, we had excess production capacity in some areas, leaving some equipment idled and wasting precious funds, and meanwhile some enterprises that urgently needed to be transformed could not find the money to fund their transformation, resulting in substantial loss. We should indeed learn from this lesson.

The Issue of Asset Appraisal and Disposal

When an old enterprise is negotiating with the foreign investors about a joint operation, the first question it will run into is how to assess the value of its assets. We only keep tab of the original value and the net value of enterprise fixed assets, but neither reflects the assets' current market value. In principle, we can estimate their value based on their replacement value, but most buildings and equipment owned by the old enterprises are used, and it is a very complicated problem to try to convert their appraised value. One, in the past, our theories and regulations did not recognize the value of land, nor did we permit the sale or transfer of the use-right over state-owned land. State-run enterprises have always obtained and utilized land free of charge. Similarly, we have never considered the sale and the transfer-with-compensation of state-owned assets or thought about affixing a price on them. Two, we do not have a market for the exchange of land, securities and other assets, and so we do not have an objective way of appraising the value of an enterprise's assets. Three, we lack asset appraisal, enterprise transfer, auction, and bankruptcy laws and regulations, nor do we have the proper organs and personnel to deal with those matters. Four, the right to dispose of the state-owned assets has not been clarified. State-run enterprises' managers and factory directors are only managers and operators of state-owned assets. They are not owners. They only have use-right but no disposal right, and without the consent and authorization of those who represent the owner of state-owned assets—that is, the relevant government departments—the state-run enterprises and their leaders have no right to enter into cooperative ventures with foreign investors. However, under the current situation, which government department and which level of government can represent the owner of state-owned assets? The department in charge of enterprises? The financial department? The central government? The local government where the enterprise is located? It is just not clear.

For these reasons, we must solve the following three problems as soon as possible: First, we must draw up an examination and approval procedure for the disposal of state-owned assets and stipulate how prices are to be affixed and how appreciation and depreciation should be handled and so on when a state-run enterprise enters into a joint operation with foreign investors. Second, we should set up and perfect the state-owned asset management organs at all levels. Third, we should set up and perfect a land exchange market and a securities exchange market.

The Question of How To Deal With Old Enterprise Retirees and Surplus Workers

According to existing regulations, an enterprise retiree's pension and other worker's benefits should be paid for by that enterprise, and an enterprise's surplus workers generally cannot be discharged. The social security system which deals with retirement, unemployment, welfare and other problems at the central level is still

being perfected. This creates a problem when we try to utilize foreign capital to upgrade old enterprises.

A foreign investor is not obligated, and naturally he will not be willing, to pay for the insurance and benefits of workers who had retired before the joint operation started. This expenditure should be included in the cost of enterprise production. If it is included in the joint venture enterprise's production cost, it will reduce its profit and in turn reduce the foreign investor's share of profit. If the expense is borne entirely by the Chinese side, there is no proper way to debit the expense. If it is taken out of the Chinese partner's profit, it would not be fair, because it has already paid income tax on that portion of the earning.

The question of what to do with the old enterprise's surplus workers is also a sticky one. Sino-foreign joint venture enterprises always worry about economic efficiency. They are not willing to keep extra hands. They only retain the necessary number of qualified workers from the old enterprises. Generally speaking, there will always be some leftover workers. According to the 1988 Labor Department and Personnel Department regulations, the Chinese partner of a joint venture and the enterprise management department should take care of the surplus workers, and the local government should actively coordinate the efforts. This is a very difficult problem in today's less-than-full-employment situation. Many joint-venture projects have fallen through because of the failure to resolve this problem.

In the course of perfecting the social security system that deals with labor employment, governments at all levels and labor and personnel departments should adopt some flexible and adaptable measures to help enterprises solve this problem. For instance, we can consider asking the government and the old enterprises to put some of their own money into a re-employment fund. Payment from this fund should vary by grade or class based on the worker's length of service. The money will serve as severance pay when the workers are let go to find work on their own, or it can be a settlement allowance while they are looking for work.

The Question of Linking the Management Systems

After an old enterprise starts a joint operation with the foreign investors, it becomes a Sino-foreign joint venture or a Sino-Chinese contractual joint venture. When the nature of an enterprise changes, the enterprise's internal and external management systems must also change accordingly. This raises a series of specific questions, the more important being: One, who should be responsible for the financial payments contracted by the former state-owned enterprise? If the Chinese partner is responsible, how should the amount be deducted from the tax already paid by the joint-venture enterprise? Two, what about the mandatory production quota and regulation and transfer duties assigned to the original state-owned enterprise? What if the joint-venture enterprise is unwilling to take responsibility for them? Three, if the

joint venture or contractual joint-venture enterprise has received permission to use the accelerated depreciation method, production cost will increase, which will reduce the income tax paid to the higher authorities, and not only that, but the state-imposed energy and transportation fund and extra-budgetary regulation fund will also be canceled. These and other factors will reduce the state's financial income. Can the state tolerate this financial loss? Four, the original enterprise's goods are mainly sold in the domestic market. After starting a joint venture, should we allow the goods to be sold in the domestic market? We suggest the following solutions to these problems:

One, with regard to enterprises' contracted financial responsibilities, we can adopt the method of "separation of tax and profit and after-tax contracting." The joint-venture enterprise should be allowed to used the income tax it paid to offset its contractual responsibility, and any deficiency should be made up by the Chinese share of after-tax profit. During the period of technological transformation, if the enterprise is unable to fulfill its contractual responsibility, the financial department may consider granting a reduction or exemption.

Two, on the issue of reduced financial revenues, we must first foster the idea that one must "give in order to take" and "raise chickens in order to get eggs" and that we must accept less revenue now in exchange for long-term revenue increase. On the other hand, we should adopt some specific policy measures: (a) We must diligently work on a program to bring in foreign capital to upgrade old enterprises, and considering the state's financial capacity, we should implement these changes over a period of time and one step at a time to avoid rushing headlong into mass action. (b) When choosing projects, we should carefully consider their economic efficiency. When the higher level departments examine and approve a project, they must carefully figure out the impact on the tax revenue and profit (delivered by the Chinese partner).

Three, on the issue of the domestic market, it is our opinion that policy-wise, we should make a distinction between the tendency of the newly created three kinds of wholly or partially foreign-owned enterprises to invade and capture the domestic market and the effort to utilize the old enterprises' original market. Most old enterprises have always sold their goods in the domestic market, and after they are upgraded using the foreign capital, generally speaking, the performance, quality, and standard of their products will be much improved, and they may even serve as import substitutes. If we can be less strict in this area and allow the joint-venture enterprises to make use of their former market, it will be very attractive to the foreign investors, which in turn will accelerate the pace of the old enterprises' technological transformation. The balance of payment problem created by the sale of those goods in the domestic market can be resolved through the foreign exchange regulation market.

Four, on the issue of enterprises' original planned mandatory production responsibilities, it can be negotiated with the foreign investors. Perhaps the newly formed joint venture can take over the responsibilities, or we can devise a method of product-sharing whereby the Chinese side can use its share of the output to fulfill its regulation and transfer obligations.

The Issue Concerning the Format of Utilizing Foreign Capital To Upgrade Old Enterprises

Today, the social security system still needs to be perfected, the commodities market and land and securities markets have not been fully developed, and the legal system pertaining to the transfer of property rights is still inadequate, and if we want to vigorously promote the use of foreign capital to upgrade old enterprises, we must use different formats so as to be flexible and adaptable: (a) We can turn to compensatory trade or equipment-leasing as ways to bring in the much-needed equipment. Later on, we can use the products as payback or pay rent on the equipment, and when the lease expires, we can buy the equipment at depreciated price. Neither method will change the nature or the management system of the original enterprise, and both are relatively simple to implement. (b) We can adopt the method of setting up Sino-foreign contractual joint ventures. A contractual joint venture is more flexible than a regular joint venture. Enterprises in a contractual joint venture may be but need not be a legal entity. A nonlegal entity contractual joint-venture enterprise can deal with profit distribution, risk-sharing, and disposal of assets upon the expiration of the contract and other matters as stipulated in the contract. The foreign partner of a Sino-foreign cooperative joint venture pays its share of the taxes at the FIE rate, and the Chinese side follows the regulation for state-run enterprises. The Chinese side need not change its management system and can bypass the asset appraisal and workers' assignment problems. A Sino-foreign contractual joint-venture enterprise which is a legal entity is still more flexible than a regular joint venture. The rights and obligations on both sides as well as the scope and method of cooperation are stipulated in the contract, which makes it easier to handle such sticky problems as enterprise asset appraisal, how to deal with the surplus workers, and the management system. (c) An enterprise creating a Sino-foreign joint venture with foreign investors can follow one of two methods. One, it can put the entire enterprise into the joint venture, or as an alternative, put only a part of its plant and facilities into the joint-venture but retain the original enterprise. In the latter case, it is easier to deal with the surplus worker problem, linkage with the state plans, and the financial contract responsibilities and so on. (d) State-run enterprises that are economically efficient can implement the shareholding system on a trial basis. They can issue stock and sell shares to foreign investors. This method of attracting foreign capital to finance the technological transformation of old enterprises allows the

foreign investors to invest without taking part in enterprise management, which makes it easier for us to handle the management system problem after the foreign capital is brought in.

Analysis of New Foreign Trade System

*92CE0187A Beijing GUOJI MAOYI WENTI
in Chinese No 11, 30 Nov 91 pp 45-47*

[Article by Tao Shigui (7118 1102 6311): "Exploration of Exchange Rate System Reform Under the New Trade System"]

[Text] On 1 January 1991, the state began a major reform of the foreign trade system. It cancelled state subsidies for foreign trade exports, and began the building of a mechanism responsible for its own profits and losses to enable foreign trade gradually to move in the direction of unified policies, equal competition, independent administration, responsibility for profits and losses, combined trade and industry, and promotion of the agent system. Under the new foreign trade system, exchange rates will play an increasingly large regulatory role as a lever. However, China's current exchange rate system still has a dual-track system that includes a quoted foreign exchange rate and a domestic market adjusted foreign exchange rate. This foreign exchange system is increasingly inconsistent with the needs of the new foreign trade system reform. It must be reformed and improved.

1. Analysis of Positive and Negative Effects on the Development of Foreign Trade of the Existing Dual-Track Foreign Exchange Rate System

(1) Analysis of Positive Effects

1. The dual-track foreign exchange rate system helps the country's foreign exchange rate system change from the fixed type to the floating type. It nudges the country's long unchanged fixed foreign exchange rate system into finding a new type of foreign exchange rate system that differs from the dual-track foreign exchange rate system. This is a beneficial effort that combines plan-regulated exchange rates with market-regulated exchange rates to help the renminbi foreign exchange rate make a transition to a controlled floating exchange rate system.

2. It helps encourage exports and limit imports. The dual-track exchange rate system permits exporters to change their foreign exchange earnings into renminbi at the foreign exchange market regulation exchange rate, which is higher than the official exchange rate, enabling them to make up their losses or make a profit. Similarly, it increases import costs for importing units, thereby producing a corresponding reduction of imports.

3. It helps reduce the state's fiscal burdens. Foreign trade export subsidies have become a heavy fiscal burden on the state. By employing the dual-track foreign exchange rate system, units earning foreign exchange can make up

their losses through the market exchange rate, thereby reducing pressures for foreign trade export subsidies.

4. It helps accelerate the lateral turnover of foreign exchange funds. Implementation of dual-track foreign exchange rates causes a fairly rapid turnover of that part of foreign exchange that comes under market regulation, thereby breaking down the former state control over revenues and expenditures and the clogged foreign exchange fund circulation channels, producing a rise in benefits from the use of foreign exchange funds.

(2) Analysis of Negative Effects

1. The impact of foreign exchange market-regulated exchange rates on the official exchange rate is too great, causing damage to the central government's capacity for macroeconomic regulation and control. Foreign exchange market-regulated exchange rates serve to supplement the country's official exchange rate; thus, their scope should be smaller than that of the official exchange rate. In reality, however, the influence of foreign exchange market-regulated exchange rates on the operation of the economy is, to a certain extent, greater than that of the official foreign exchange rate. The central government holds only 40 percent of the country's foreign exchange revenue; most is under market foreign exchange rate regulation. Various regulations clearly require that the official exchange rate be used as the conversion coefficient, but in actual practice, the market exchange rate is frequently used for making conversions. In addition, the existence of a dual-track conversion rate is bound to result in difficulties in separating the two under certain conditions. This not only causes difficulties in planning, statistical, and fiscal work, but it is also a big nuisance for departments concerned. Pulling and hauling in foreign exchange supply and demand, and in foreign trade policies, and the rise in prices easily provoke an elevation of the rivalry with the official exchange rate. Thus, a vicious cycle ensues in which the official exchange rate rises with the foreign exchange market regulation exchange rate.

2. The uneven wave-like changes in the degree of difference between the dual-track exchange rates hurt the role of foreign exchange as a lever for regulating the economy. Because market-regulated exchange rates come about without full theoretical preparation and lack of experience, they change unpredictably with changes in market supply and demand, loosening or tightening of the money supply, and changes in import-export policies. This frequently results in marginal export enterprises tending to divert their export goods to the domestic market in order to reduce risks. Since there is no nationwide unified guidance price for market exchange rates, market regulation among one region and another becomes blocked. As a result, noneconomic factors interfere excessively causing market exchange rates to become distorted and unrealistic. The imbalance in market exchange rates between one region and another creates conditions for unequal foreign trade competition among different regions, which hurts the

formation of a mechanism requiring responsibility for one's own profits and losses. Additionally, a distinction between spot exchange and exchange of the enterprise's retained foreign exchange earnings exists in foreign exchange market regulation that inadvertently creates one price for spot exchanges and another price for the exchange of enterprise's retained portion of foreign exchange. The mutual effect of, and the mutual conflict between the two damages formation of a single nationwide exchange rate.

3. A dual-track foreign exchange rate is detrimental to the elimination of corruption. Because of the existence of a dual-track foreign exchange rate system, when using foreign exchange, enterprises consider first how they can use foreign exchange purchased at the state parity price (such as foreign exchange for expanded autonomy) [kuo-quan 2368 2938]. Second, they consider how they might use local semi-negotiated price foreign exchange (such as locally retained foreign exchange), and only finally do they consider market-regulated foreign exchange. The difference in price of these several kinds of foreign exchange is very great. Among units that use foreign exchange, parity price foreign exchange is rather attractive. These differences in the price of foreign exchange affect enterprises' economic returns, and seriously handicap operation of the competitive mechanism among enterprises. In addition, regulations on the use of market regulated foreign exchange are more flexible. Enterprises do all possible to get parity price foreign exchange, and some people who forget all sense of ethics when they see the prospect of profit even use the difference between dual-track exchange prices to line their own pockets. Consequently, bribery cannot be stamped out despite repeated injunctions against it. In this sense, the dual-track foreign exchange rate system, like the dual-track price system, creates a "hotbed" for corruption.

4. Dual foreign exchange rates are detrimental to the country's improvement of its foreign economic relations. Developed western nations accustomed to a single market exchange rate consider the dual-track foreign exchange rate system unfair, and another form of tariff barrier. This may also easily lead to other country's retaliating against China economically.

Analysis of the positive and negative effects of the prevailing foreign exchange rate system shows that with further improvement of foreign trade system reform, abuses will increase. Without foreign exchange trade system reform, it will be difficult to meet the requirements of economic development.

2. New Foreign Trade System's Need for the Regulatory Role of Foreign Exchange

The new foreign trade system devotes serious attention to the application of macroeconomic methods to regulate foreign trade, enlarging the purview of market regulation, thereby enabling China's foreign trade system to become more consistent with international trade norms. These macroeconomic methods have three

main components as follows: One is the elimination of government export subsidies for the building of a mechanism responsible for its own profits and losses; second is creation of a foreign trade climate that guarantees equal competitiveness. This is a change from the former system whereby regions were able to retain different percentages of foreign exchange to a system whereby foreign exchange retention is uniform for different major categories of goods. In order to ensure foreign exchange for the use of the state, the state purchases from foreign trade enterprises and enterprises that supply export goods 20 percent and 10 percent respectively of their foreign exchange receipts at the average nationwide foreign exchange market-regulated price. Third is continued practice of the foreign trade contract management responsibility system, gradually setting export totals, and both export foreign exchange quotas and quotas for payment to the state of foreign exchange (including state procurement).

The foregoing shows that the new foreign trade system poses higher and newer requirements for the regulatory role of foreign exchange rates as follows: First, after abolishing government subsidies for foreign trade exports, foreign exchange rates will have a very great influence on exporting enterprises, and foreign exchange rates will be both more sensitive and more dependable. Each readjustment of the official exchange rate, and fluctuations in the foreign exchange market regulated exchange rate will affect export enterprises' economic returns causing them to readjust their operating tactics. This will also require decision making units to maintain a cautious attitude toward foreign exchange rate readjustments, and to take powerful actions to maintain the stability of foreign exchange market-regulated exchange rates in order to ensure fulfillment of quotas for payments of foreign exchange to the central government. Second, the new foreign trade system requires a change in foreign exchange rates from the two track to a single track system in order to eliminate abuses and ensure fulfillment of the three contract norms. Third, the new foreign trade system requires a transition from the existing fixed foreign exchange rate system to a controlled floating exchange rate system in order to make full use of the regulatory role of foreign exchange rates as a flexible lever.

3. Ideas About Foreign Exchange Rate System Reform

(1) *The trend of renminbi foreign exchange rate reform is toward a merging of the two tracks, and a transition to a controlled floating foreign exchange rate system.*

During the past year or so, two major readjustments have been made in the renminbi exchange rate, placing it at 5.22 yuan renminbi per \$1.00, a figure close to the prevailing foreign exchange market-regulated exchange rate in a narrowing of the difference. This sets the stage for a merger of the dual-track foreign exchange system. The direction of reform must be a transition from the official exchange rate to the foreign exchange market regulated exchange rate, the two ultimately becoming a

single exchange rate. Accompanying this reform should be reform of the existing fixed exchange rate system in a transition to the controlled floating exchange rate system to make it compatible with the trend of development in the international exchange rate system, and in keeping with needs in reform of China's foreign trade system.

(2) Since readjustment of the official foreign exchange rate cannot be accomplished in a single stroke, active efforts must be made to create the basic conditions cited below.

1. Formulation of a market-regulated average exchange rate for foreign exchange. In order to prevent a widening of the difference between the foreign exchange market-regulated exchange rate and the official exchange rate, stability of the market exchange rate must be maintained. The most effective ways of stabilizing the market exchange rate are as follows: Establishment of a foreign exchange market-controlled exchange rate guidance center; the setting up of a fund that is genuinely able to regulate and control the market's foreign exchange fund, that most importantly regulates, controls, and formulates the foreign exchange market-regulated average exchange rate, and makes regular announcements. The foreign exchange regulated price everywhere must float within 5 percent of this foreign exchange guidance price. It may not exceed it. This can both ensure the stability of the market foreign exchange price and make use of its flexible regulatory role.

2. Expansion of the role of exchange earnings and the market-regulated exchange rate on the regulation of exports and imports. In order for foreign exchange rates to play a direct regulatory and control role, the writers believe that foreign trade enterprises and enterprises supplying export goods should turn over to the government for compensation at the national foreign exchange market regulated average exchange rate—20 percent and 10 percent respectively of their foreign exchange. This would be a change from the foreign exchange procurement system towards a direct settlement of foreign exchange at the market exchange rate. No further procedures would be necessary for the retention of this portion; for the remaining portion, settlement would be at the official exchange rate. This would reduce numerous intermediary links and unnecessarily complicated procedures. Export enterprises would also be able to be reimbursed promptly with renminbi funds thus increasing in their economic returns. At the same time, it would also reduce the portion of foreign exchange provided at the official exchange rate for import goods, thereby enlarging the percentage of imports regulated by the market exchange rate. In cases where the central government truly loses on the use of foreign exchange for imports, appropriate subsidies should be provided in order to create a truly competitive foreign trade climate.

3. Gradual change from quota retention to spot exchange retention. This is one of the basic conditions for merging the dual-track exchange rate into one. If the official exchange rate readjustments are put in place, the quota

regulated price will disappear completely, only simple use exchange norms remaining. Without doubt, this will strike a very severe blow to export enterprises that rely on the reallocation of foreign exchange to make up losses, and it will discourage exporting to create foreign exchange. Therefore, advance preparations for merging the dual-track foreign exchange system into one will entail gradually changing quota retention into spot exchange retention. Work can be done along two lines to achieve this. For spot retentions that have already been divided, a combination of the official exchange rate and spot exchange may be used for reallocation or use. Alternatively, the state can purchase this portion of the foreign exchange quota at the market exchange rate while simultaneously using spot exchange retention for new foreign exchange that is created. This can eliminate conflict between the quota reallocation price and the spot exchange reallocation price, thereby helping realize a single exchange rate. It can also foster a foreign exchange market in China in which only those having real foreign exchange (and not foreign exchange use rights) can deal.

4. Use of a dual-track exchange rate to build a national foreign exchange reserve reallocation fund. During the 1990's, China will enter a peak period for the repayment of debt principle and interest requiring that foreign exchange for imports, for which there is relatively little elasticity, be assured. A dual-track exchange rate may be applied for the building of a national foreign exchange reserve allocation funds in order to do this. This fund may be divided into renminbi and foreign exchange components. When foreign exchange reserves are in short supply, the state can empower the central bank to enter the allocation market to buy foreign exchange. When foreign exchange reserves are fairly plentiful, they may be disposed of through the allocation market. In this way, not only can foreign exchange reserves be reduced, but the amount of funds tied up in renminbi can be reduced too. In addition, foreign exchange reserves may be gradually put under central bank control.

5. Use of the dual-track foreign exchange rate in the founding of a foreign exchange tax system. With the advent of the new foreign trade system, more must be done to increase foreign exchange holdings from exports. In order to do this, foreign exchange-earning enterprises can pay the national and local governments a portion of their taxes in foreign exchange to be calculated at the foreign exchange reallocation market average exchange rate, foreign exchange payments offsetting taxes. This will increase the state's foreign exchange revenues, and readjustment of the foreign exchange tax percentages for all categories of commodities will balance gains and losses as well as regulate the volume of imports and exports for greater improvement of the new foreign trade system.

U.S. Firm Unveils 'First' GaAs Supercomputer

92P60076B Beijing JISUANJI SHIJIE [CHINA COMPUTERWORLD] in Chinese No 43, 6 Nov 91 p 2

[Article by Zhan Wendao (6124 2429 1497): "Convex Company Formally Announces World's First Gallium Arsenide supercomputer in Beijing"]

[Summary] At a new-product press conference held in Beijing on 14 October, the U.S. firm Convex Computer Company formally announced the world's first GaAs-based supercomputer, which will come out in several models designated as the C3 series. According to the newly standardized CTP list for U.S. computer exports which took effect 1 September this year, this computer can be exported to China.

The C3 supercomputers, each of which has 30 different GaAs gate-array designs, have processor hardware logic using 15K and 30K GaAs gate arrays and a specially developed VLSI 50K gate-array design. The high-end model within the C3 series is the C3880, which has a clockspeed of 60MHz, a cycle time [i.e. instruction cycle] of 16.67 ns, and an eight-CPU operating speed of 1920MFLOPS (32-bit) and 960MFLOPS (64-bit). Maximum main memory is 4 GB [gigabytes], and main-memory transmission rate is 4 GB/s. The series now consists of three sub-series, the C3200 line, the C3400 line, and the C3800 line; in the entire series, the low-end model (least expensive and easiest to use) is the C3201, which has a floating-point processing speed of 35MFLOPS.

The C3, which is the first RISC-based supercomputer, is a vectorised, parallel multiprocessor computer using Convex's proprietary air-cooling technology. The C3-series operating system, called Convex OS, is a UNIX system conforming to the POSIX 1003.1 standard. The system's vectorized and parallelized compiler uses the C, FORTRAN, and Ada languages. Network functions include Ethernet, UltraNet, TCP/IP [transmission control protocol/internet protocol], DECnet, NFS, and NCS.

Minerals Production Accord Signed With Brazil

92SM0133Y Sao Paulo GAZETA MERCANTIL in Portuguese 20 Nov 91 p 16

[Article by Sergio Danilo]

[Text] Rio—The Center for Mineral Technology (Cetem) and the mineral and scientific authorities of the People's Republic of China recently signed a protocol in Beijing for future collaboration on the production of rare earth minerals, oxides, and metals, Professor Roberto Vilas Boas has informed this newspaper.

The Cetem director, who returned yesterday from a scientific mission to China, said the protocol calls for the transfer of Chinese technology for the development, in Brazil, of catalytic converters for motor vehicles, which play an important part in environmental protection.

The technique used by the Chinese Government consists in installing a ceramic form, impregnated with a mixture of oxides, in the mufflers of the country's automobiles. According to Vilas Boas, tests of the converter in Chinese and imported (Japanese) automobiles indicate that this method of conversion is less expensive than platinum or palladium converters.

According to the new protocol, Cetem, which is a party to the Brazilian Council on Rare Earths, will be responsible for researching the isolation of the oxides and for tests of the ceramic matrix and of new materials.

Vilas Boas also reported that the technical cooperation agreement with the Chinese mineral authorities also includes the Tsinghua University (Technical University of Beijing), which will exchange information in the area of rare earths.

In 1992, Cetem plans to bring in two Chinese specialists who will be involved in research and development of the uses of rare earth minerals in Brazil.

A sharp demand for rare earth minerals has been emerging throughout the Western World, the Cetem director reported, because it is new material with many uses in industry.

Geological Mapping Accord Signed With Brazil

92SM0133Z Sao Paulo GAZETA MERCANTIL in Portuguese 9-11 Nov 91 p 17

[Text] After years of isolation, China is initiating technological partnerships. Brazil, through the CPRM (Mineral Resources Prospecting Company), a state enterprise, will conduct joint studies with China in the area of mining technology.

China is forming partnerships in the most costly phase of mineral research, which is the mapping of the ground resources. In this phase, according to CPRM President Carlos Oiti Berbert, the risks are great and the financial return is not guaranteed.

For Brazil, the advantage of the exchange will be the legal access to foreign technology. The Constitution does not permit private foreign companies to map and assess the economic potential of the nation's mineral deposits.

The agreement between the two countries, signed in September, provides for a survey of the geophysical and geochemical aspects of Chinese and Brazilian terrain. The results will be used to create a binational data bank.

In the area of water resources, the Chinese will bring their experience in solving the problem of flooding, which occurs frequently in China's two major rivers: the Yellow River and the Blue River. Chinese techniques in river irrigation and in obtaining water in old fields are also included in the cooperation accord. The CPRM scientists will pass the technology for the storage of iron, manganese, and gold on to the Chinese technicians, AGENCIA BRAZIL reported.

LABOR

Legislating Personnel Wage Laws

HK1211090191 Beijing GUANGMING RIBAO
in Chinese 20 Oct 91 p 3

[Article by Li Ge (2621 7245) and Xu Guanglong (1776 0342 7893): "Tentative Discussion on Wage Legislation for Personnel of State Organs"]

[Text] Concept and Function of Wage Law for Personnel of State Departments

Legislating for the salaries of state personnel at an early date was formally proposed as an important motion at the Third Session of the Seventh National People's Congress. This not only signals the consensus on the legalization of the work on functionaries' salaries, but also reflects the necessity and urgency of speeding up the legalization of salary payment, along with the deepening of the reform on cadres' personnel system.

First of all, making the wage law requires a clear understanding of the meaning and features of the wage law. Generally speaking, wage law is a legal norm formulated by the state, implemented in a mandatory manner, and serves the purpose of protecting and regulating the legitimate personal shares of income for consumption. The wage law for the personnel of state offices mainly regulates the relations of distribution for the consumption of individual functionaries, as well as other closely connected relations. The legal relations regulated by the wage law are characterized by overlapping and comprehensiveness. No other legal sectors, such as those of civil law and economic law, are competent to regulate such legal relations independently. Because the wage law has a unique object and scope of regulation, it is relatively independent and should occupy an important place in our country's legal system.

As an integral part of China's system of wage legislation, the wage law for state personnel has a great deal to offer to the scientific and rational settlement of the problem with salaries and benefits of state personnel and the effective protection of their legitimate rights and interests. This function finds expression mainly in the following four aspects: First, it is conducive to implementing the principle of "distribution according to work and matching duties with remunerations" in the payment of salaries in state agencies; second, it is conducive to the optimization, high efficiency, honesty, and stability of the ranks of state cadres; third, it is conducive to giving full play of the role of salaries as incentive and guarantee and mobilizing and enhancing state cadres' enthusiasm in, and quality of, work; fourth, it is conducive to overcoming and avoiding the arbitrariness in the payment of salaries in state agencies, so as to increase the transparency of the work on salaries.

Guideline and Principle of Legislation for State Personnel's Salaries

In view of the current social, economic, and ecological environments of our country, the basic guideline for scientifically formulating the wage law for state personnel should be: taking the socialist distribution principle of "distribution according to work" as the theoretical lodestar, using relevant legal norms, such as the Constitution and Civil Law, as the legal basis, and meanwhile borrowing and assimilating other countries' experience in wage legislation.

Using the principle of distribution according to work and the theory of socialist planned committee economy as the theoretical lodestar of the legislation for salaries in state agencies is conducive to effective legalized solution to such problems as discrepancy between remuneration and labor and unfair distribution of social income, rational designation of the ratio between the growth of the national income and the growth of the income of state personnel, and guarantee of the constant improvement of their material and cultural livelihood along with the development of the national economy.

As a socialist country, China has always attached importance to the legitimate rights and interests of its citizens. The legislative spirit defined in China's laws, such as the Constitution and the Civil Law, and aiming at safeguarding the legitimate remuneration for the citizens' labor should become the legal basis of the wage legislation for state personnel. The above legal principles should materialize in the form of regulations governing salaries of state personnel through more detailed stipulations.

Drawing on the experience of other countries in wage legislation and learning their scientific legislative techniques is an effective approach to improving the quality of China's wage legislation for state agencies. Wage legislation, as an effective legal means for regulating the distribution relations of individual income, has a history of decades in foreign countries. Since World War II, almost all developed Western countries and a considerable number of developing countries have formulated and promulgated wage laws, such as Japan's "Remuneration Law for Ordinary Workers" and Germany's "Federal Wage Law." Various countries around the world have accumulated plenty of helpful experience in the legislative techniques, legislative procedures, legal styles, and operational mechanisms for making wage laws. Summing up and assimilating such experience will help us make our country's wage law for state personnel.

In our country, we should follow the following principles in making a wage law with Chinese characteristics for state personnel:

First, the principle of conforming to our national conditions. As a superstructure, law should not transcend the social and economic basis and the developmental level on which it is produced. The same is true with the wage law. The development of China's national economy

shows that employment is higher but wages are low, and while it is necessary to appropriately widen the gaps between different distribution grades in individual income, long-term existence of such features as excessive disparities should be prevented. Therefore, it is imperative to give full consideration to the impact of these factors in making the wage law for state personnel.

Second, the principle of distribution according to work. The principle of distribution according to work is the basic principle governing the distribution relations of individual consumption under the socialist system. Fundamentally speaking, the wage law for state personnel is the legalization of this principle. The wage law for state personnel should be made in such a way as to highlight the principle of conformity between responsibilities and remunerations, in order that the wage system for state personnel contribute to absorbing talented people and enhancing the quality of state cadres, thus arousing their enthusiasm in work to the maximum and urging them to accomplish their duties with utmost efforts.

Third, the principle of giving preferential terms when necessary. In the wage law for state personnel, no equal limitations should be put on state agencies and state personnel alike. In the legislative process, more weight should be placed on protecting the legitimate rights and interests of the state personnel and the previous administrative provision and payment and the previous relationship between obeying and being obeyed should be changed, so as to establish a new legal relationship whereby the representatives of the two sides can agree on corresponding rights and duties through negotiation.

Fourth, the principle of comprehensiveness. As a concrete law to protect the citizens' legitimate income, the wage law should contain both procedural norms and entity norms in terms of legislative technique and legal style. Furthermore, principled stipulation and flexible stipulation should be integrated, so as to maximize the operability of the wage law while preserving its authority.

Fifth, the principle of conformity. The wage law for state personnel must conform to the progress of the reform on cadres' personnel system in China. It should, on the basis of summing up the past reforms on wage systems, fully embody the fruits of reform and forecast the tendency of the wage system evolution.

Structure and Content of Wage Law for State Personnel

Generally speaking, the legislation for state personnel's salaries is a legislative process of determining the norms for salary distribution, wage systems (including those governing wage standards, bonuses, allowances, and subsidies), wage management system, and arbitration of wage disputes.

The wage law for state personnel consists of two major structural parts: (1) general guideline, defining the purpose, principle, and scope of implementation of the wage legislation; and (2) specific articles, explaining various

legal stipulations in detail. What is worth pointing out is that because the legal relations regulated by the wage law are characteristically comprehensive, its legal origin [yuan yuan 3220 3293] (i.e. external legal form) can be varied. It can appear as an independent law, or as part of the law of state public servants or other relevant laws.

According to the actual conditions of our country and the experience of other countries in legislation for the salaries of public servants, I think that the wage law for state personnel in our country should mainly contain the following aspects:

1. The wage law for state personnel should make it clear that the principle of relative balance be followed in defining the standards of the functionaries' salaries so as to keep them basically in balance with the income of the personnel in state-owned enterprises and institutions. Besides, the legal procedures for implementing this principle should be stipulated.
2. The wage law for state personnel should stipulate that the state personnel's legitimate income and entitlement to normal promotions be protected and that no unit or individual is permitted to arbitrarily increase or deduct salaries of the personnel or stand in the way of their normal promotions.
3. The wage law for state personnel should stipulate that a normal promotion and increment system be set up, so that the operational mechanism of the wage system can operate steadily and normally according to a rigorous legal procedure.
4. In order to guarantee the state personnel's power to secure basic necessities and prevent price hikes from excessively affecting their actual living standards, the wage law should define the guidelines for guaranteeing the minimum salary income of the state personnel and stipulate the norms of their minimum salary income, complemented by price increase subsidy.
5. In order to ensure sufficient salary funds for the normal promotions and increments of the state personnel, the wage law should stipulate a rational ratio between the growth of the salary income of state personnel and the growth of the national income, so as to have sufficient financial power to guarantee the constant increase of the state personnel's salary income with the development of the national economy.
6. With the deepening and development of China's reform on cadres' personnel system, the relevant articles in the wage law will be constantly adjusted and amended. In order to safeguard the authority and stability of the wage law while assimilating the achievements of reform in time, the wage law for state agencies should stipulate the procedures for amending relevant articles.
7. The wage law for state personnel should also establish and stipulate the procedures for appeals and arbitrations

concerning wage disputes so that when such problems arise, they can be settled and adjudicated according to the stipulated procedures.

8. In order to enhance the democratization of the work on salaries in state departments, the wage law should stipulate corresponding salary supervision mechanism and procedure and increase the transparency of the work on salaries in the departments.

To sum up, formulating a wage law for state personnel at an early date is imperative under the present circumstances. We should take account of our national conditions, mobilize the forces from various quarters of the society, and, on the basis of in-depth investigation and study as well as drawing upon the positive and negative experiences in wage legislation in and outside China, make the wage law for state personnel and gradually perfect it in the course of practice in the future.

POPULATION

Imbalance in Natal Sex Ratio, Reasons

92CE0165A Beijing RENKOU YU JINGJI
[POPULATION AND ECONOMICS] in Chinese No 5,
25 Oct 91 pp 9-12, 54

[Article by Xu Yi (1776 3015) and Guo Weiming (6753 4850 2494), Chinese Population Information Research Center: "Natal Sex Ratio in China and an Exploration of Associated Questions"]

[Text] Natal sex ratio is one of the basic indicators in demography. Under natural conditions, the numerical value for the natal sex ratio is fairly steady. It is roughly similar in all countries, generally being around 105 to 106. Abnormalities in natal sex ratio data may be generally attributed to two circumstances. One is artificial intervention, e.g., selective induced abortions. The other is skewed statistics. Strictly speaking, the effect of infanticide on the zero age group natal sex ratio is not within the purview of the sex ratio at birth issue. However, since a statistical survey of this situation is difficult, the results produced are frequently mixed together with changes in the natal sex ratio, thereby increasing difficulties in analyzing natal sex ratio data.

Provisions of China's constitution promote planned parenthood, and whether prevailing planned parenthood policies affect the natal sex ratio is an issue about which many people are concerned. This article will discuss and analyze the current natal sex ratio in China using data that the State Family Planning Commission obtained in 1988 from a 2 per 1,000 population birth and birth control sampling survey, reference made to some statistical data and analytical articles on the natal sex ratio in recent year.

1. The Natal Sex Ratio in China Today

Data about the sex ratio of children at birth in urban and rural areas nationwide during the period 1980-1987 from a 2 per 1,000 population birth and birth control sampling survey that the State Family Planning Commission and the State Statistical Bureau provided on 1 July 1988 show the following basic features of the natal sex ratio in China (See Table 1)

Table 1. Nationwide, Urban, and Rural Sex Ratio at Birth (1980-1987)

Year	1980	1981	1982	1983	1984	1985	1986	1987	Average
Nationwide	107.3	107.0	107.2	107.8	108.3	111.2	112.2	110.9	109.00
Urban	107.7	107.6	110.2	103.4	105.4	104.2	107.8	103.8	106.29
Rural	106.3	106.7	105.8	107.4	108.5	112.7	110.5	112.4	108.85
Urban-Rural Difference	1.4	0.9	4.4	4.0	3.1	8.5	2.7	8.6	2.56

Note: Because of the limited number of samples, data have been omitted for suburbs, towns, farms, and forests

Marked Rise in Sex Ratio at Birth After 1985

Table 1 shows a national natal sex ratio of 107-108 for the period 1980-1984, or an average of 107.52. Between 1985 and 1987, the national natal sex ratio suddenly increased to between 111 and 112, or an average of 111.43. The natal sex ratio rose from 107.3 in 1980 to 112 in 1986. This situation does not square with natal sex ratio numerical values, which were basically steady. If the survey data can be relied on, the natal sex ratio from 1985 through 1987 can surely be regarded as abnormal, at least; however, the problem is that the survey results obtained do not necessarily reflect the actual natal sex ratio.

2. Marked Difference Between the Urban and Rural Natal Sex Ratio

Table 1 shows an average urban natal sex ratio of 106.29 during the eight year period, a figure smaller than the 108.85 for rural villages. This suggests that the natal sex ratio in cities is normal, but that the rural birth sex ratio is slightly high. This result approximates that of Li Bohua [2621 0130 5478] et al, who found from birthrate random sampling data on 1 per 1,000 of the population nationwide the natal sex ratio average for the period 1930-1981 (107.5 for cities, and 108.9 for rural areas). Survey statistics on childbirth from 486,709 delivery rooms in 88 units in 19 different provinces and municipalities for the period 1960-1981 that Gu Zushan [6253 4371 0810] et al collected found a different average infant sex ratio (109.1 for cities and towns and 108.3 for rural villages, the ratio for cities and towns being greater than for rural villages). This natal sex ratio also differs from the one that the United Nations provided in 1981

on 84 countries, which was 105.8 for cities and towns and 105.5 for rural villages, the ratio for cities being slightly higher than for rural villages. No final agreement has yet been reached on reasons for the difference between cities and rural areas in the natal sex ratio. This difference is reflected in the Table 1 range of difference between cities and countryside (rural-urban) that goes from -3.5 to 8.6, although the usual view is that there should be no marked difference. Moreover, for one year (1987) in the 2 per 1,000 survey data, the difference between cities and rural areas in the natal sex ratio reached 8.6 percentage points, which was certainly beyond normal limits. Table 1 also shows a recent trend toward increase in the difference between cities and rural areas in the national natal sex ratio. This suggests that the rise in the national natal sex ratio from 1985 through 1987 stemmed largely from an abnormal rise in the national rural natal sex ratio during this period.

3. Marked Difference in Natal Sex Ratio Inside and Outside Rural Plan

As was said above, the rural natal sex ratio is higher than normal. Further analysis shows that the rural natal sex ratio within plan is within the normal value range (102-109), the mathematical average natal sex ratio being 105. However, the natal sex ratio outside plan is markedly higher than the normal range (108-117). The mathematical average natal sex ratio is 112. The natal sex ratio outside plan in rural villages is higher than the natal sex ratio within plan by between 6 to 8 percentage points (See Table 2).

Table 2. Comparison of Rural Natal Sex Ratio Inside and Outside Plan (1980-1987)

Year	Inside Plan	Outside Plan	Difference
1980	104.63	107.64	3.01
1981	105.25	107.81	2.56
1982	102.76	108.30	5.54
1983	106.46	108.21	1.75
1984	102.41	114.48	12.07
1985	109.14	116.35	7.21
1986	104.34	117.49	13.15
1987	108.75	116.56	7.81
Average	105.47	112.11	7.00

It is quite apparent that the main reason for the overly high natal sex ratio nationwide during the period 1985 through 1987 was a rise in the natal sex ratio outside of plan in rural villages. However, a statistical hypothesis as to whether the actual difference in the natal sex ratio stems from other reasons awaits thorough analysis.

4. Marked Difference in the Natal Sex Ratio Inside and Outside Number of Pregnancy Plans

In former studies about differences in the natal sex ratio associated with the number of pregnancies, some people supposed a trend toward decline in the sex ratio as the number of pregnancies rose. For example, the natal sex ratio for from one to eight or more pregnancies involving nearly 5.3 million births in the United States between 1969 and 1971 showed the following:

Table 3. Natal Birth Ratio for American Whites and Blacks (1969-1971)

	One Pregnancy	Two Pregnancies	Three Pregnancies	Four Pregnancies	Five Pregnancies	Six Pregnancies	Seven Pregnancies	Eight or More Pregnancies
Whites	106	106	106	105	105	104	104	104
Blacks	104	103	102	102	101	101	101	102

Results of our analysis of the 2 per 1,000 population birth and birth control random sampling data show that in China the natal sex ratio for one pregnancy is basically normal, and that as the number of pregnancies increases, the sex ratio tends to rise, the sex ratio for a high number of pregnancies being higher than for a low number of pregnancies. This tendency appears particularly prominent in the natal sex ratio from a high number of pregnancies outside plan. (See Table 4).

Two Pregnancies	107.46	106.85	111.75	115.48
Three or More Pregnancies	105.20	104.88	110.78	114.05

To summarize the foregoing, although the increase in the natal sex ratio that surveys have turned up in recent years is relatively prominent, as was said at the beginning of this article, this abnormal increase may stem from either human intervention or from statistical errors. Therefore, until such time as a thorough and complete analysis is made of this abnormal increase, one positively cannot suppose arbitrarily that this is a "true abnormality" brought about by human intervention, thereby creating turmoil in understanding the natal sex ratio in China today, as well as the appearance of various conjectures and misunderstandings.

2. Thoughts About China's Natal Sex Ratio

A number of articles that have been published recently both in China and abroad conclude, on the basis of

Table 4. Sex Ratio Per Number of Pregnancies Inside and Outside Plan (1980-1987)

Number of Pregnancies	Births Within Plan		Births Outside Plan	
	Nation-wide	Rural	Nation-wide	Rural
One Pregnancy	105.76	105.34	106.18	107.17

certain data, that the natal sex ratio is seriously out of balance. They come to the conclusion that by the end of the present century serious marriage problems will ensue. Worse yet, some foreign observers even calculate, solely on the basis of the reported natal sex ratio, that tens of thousands of female infants are put to death in China each year. This is unscientific. I believe that in order to determine the true reasons for the abnormality in the natal sex ratio a further analysis should be made of certain data about the natal sex ratio that has been obtained in two random samplings in recent years.

On the basis of the 1 per 1,000 population birth rate sampling data, the average natal sex ratio for the period 1964-1981 was 107.8. Gu Zushan et all found 107.1, and the third national census found 108.47. These data hold important reference value in analyzing China's natal sex ratio. A 1987 State Statistical Bureau random sampling of 1 percent found a natal sex ratio of 113.12, a figure much higher than data previously reported in China. In the 1988, 2 per 1,000 population birth and birth control sampling, the eight year data average was 109. The three-consecutive-year rise beginning in 1985 appeared to be at variance with the normal pattern. Since the urban natal sex ratio for the same period remained substantially within the normal range, the question that has to be answered is why has there been a rise in the natal sex ration in China in recent years. This necessitates beginning with an analysis of the overly high rural natal sex ratio.

1. Effect on the Natal Sex Ratio of Misleading Reports and Failure To Report

The many misleading reports and omissions in rural birth statistics are a main reason for the overly high natal sex ratio found in surveys. This state of affairs has existed for a long time. Planned parenthood units and statistical units have drawn up all sorts of measures to solve this problem. In the course of this current study, it was found that the natal sex ratio tended to be high for years close to the survey time, and basically normal for years fairly distant from the survey time. This was confirmed through a comparison of the 1982, 1 per 1,000 population survey data with the 1988 2 per 1,000 survey data. (See Table 5)

Table 5. Comparison of Infant Sex Ratios Found in the 1 Per 1,000 and the 2 Per 1,000 Random Sampling

Random Sampling	Natal Sex Ratio	
	1980	1981
1 per 1,000 (1982)	111.8	108.5
2 per 1,000 (1988)	107.3	107.0

The reason for this result is that as the year for the survey approached, since the children were still relatively small, it was relatively easy to make misleading reports, but when the survey year was fairly distant and the children had gradually grown up and would soon have to go to school, further misleading reports could be easily

detected; thus, answers were more truthful. In addition, the levying of fines and other planned parenthood measures solved the problem of violation of regulations. They eliminated statistical errors and revived the original state of affairs. Since 1989, for example, 865 households in Xiping County, Henan Province have taken back their children after having earlier completed arrangements to entrust female children to other households. From this actual example of misleading reports and the omission of reports on female infants, one can get a rough idea of the problem.

The provisions of Central Committee Document 7 of 1984 were for the purpose of further improving the planned parenthood policy. However, in the implementation of this policy, quite a few complex problems also appeared. In the process of going from getting a consensus to drawing up specific measures, full preparation was not made in quite a few places, and under the rural output-related contract responsibility system, failure to cover anything is extremely likely to be regarded as a policy liberalization. This is the way the peasants look at things, and it is also the understanding that grassroots level cadres have. As a result, parenthood matters are allowed to take their own course. As an example, generally speaking peasants are willing to accept punishment for having two many male children; consequently, most of the misleading reports from rural women of child-bearing age are for girls. In statistics, a large number of the misleading reports and omissions involve girls. Consequently, in statistics, the natal sex ratio outside plan is overly high.

2. Effect on Natal Sex Ratio of Uterine Sex Determination

For various reasons related to social and economic development, the sexual preference for boys is relatively strong in China, particularly in rural villages. With advances in medicine and health care, B super fine equipment [chaodeng shebei 6389 4583 6080 0271] has come into use in health care during the perinatal period, making uterine sex determination much easier than in the past. Although China's health and planned parenthood units explicitly rule that uterine sex determination is prohibited except for the purposes of diagnosing inherited illnesses, an extremely small number of medical doctors disregard medical ethics to determine secretly the sex of unborn children in pregnant women. This may be another reason, in addition to misleading reports, omitted reports, and human intervention, for the increase in the natal sex ratio. However, in view of conditions prevailing in China at the present time, the use of B superfine equipment in rural villages is not yet widespread; therefore, the increase in the natal sex ratio resulting from this selective artificial inducement of abortions is unlikely to be a very large percentage.

3. Effects on the Natal Sex Ratio of Female Infanticide and Abandonment

The suggestion that female infanticide and abandonment is a factor affecting the natal sex ratio in China has historical roots. In some parts of the country, the natal sex ratio has historically been overly high. Following liberation, it gradually went down, but to this day it remains higher than in other areas. Some fragmentary data show female infanticide and abandonment to be one of the reasons for the overly high natal sex ratio in these areas. Two things must be analyzed regarding the effect of female infanticide and abandonment on the natal sex ratio. Generally speaking, the abandonment of female infants might be expected to be greater than female infanticide, but since society and other families care for them, the effect of abandonment on the natal sex rate is an indeterminate element. This is because if families taking in abandoned infants report honestly in surveys, this does not produce an abnormal change in the natal sex ratio overall. Conversely, if these abandoned female infants are not truthfully reported, this can result in a falsely high natal sex ratio. As for the effect of infanticide on the natal sex ratio, although precise quantitative data are lacking, the above analysis about a fairly high natal sex ratio in years fairly close to survey time and a "return to normal" of the natal sex ratio in years fairly distant from survey time offers powerful counter-evidence. If the annual infanticide of several tens of thousands of female infants is true, they cannot come back to life several years later. Therefore, the situation observed in the survey of a high natal sex ratio in years fairly close to the time of the survey can result largely only from misleading reports or reporting omissions. It positively cannot result from infanticide.

3. Conclusions

1. The overly high natal sex ratio in the population found in the 1988 two per 1,000 population birth and birth control sample survey and the 1987 1 percent sample survey data is a statistical falsification problem resulting largely from misleading reports and failure to file reports on female infants. Therefore, there is no reason for worry that tens of millions of males will be unable to find mates before the end of the present century.

2. The statistical system must be gradually improved to solve the problems of misleading reports and failure to file reports on females born outside plan. In particular, after instituting a control responsibility system with the goal of planned parenthood, even greater attention will have to be given to the prevention of this kind of problem. While instituting a responsibility system, the supervisory mechanism will have to be improved to solve the dual problems of deception, and misleading and omitted reporting in planned parenthood statistics, making the data more reliable in order to avoid causing chaos because of inaccurate data.

3. Full attention must be given the problem of an abnormal natal sex ratio as a result of uterine sex determination. Legal provisions must be strictly enforced to bring a resolute halt to sex determination for other than genetically transmitted illnesses, thereby

avoiding serious social problems resulting from an imbalance in the natal sex ratio.

4. Punishment according to law is to continue to be rigorously enforced for infanticide and the abandonment of infants in order to stamp out this problem.
5. After additional 1990 fourth general census data have been published, a time sequence analysis may be made of the 1982 and the 1990 data. By so doing we will be able to have a more clear-cut analysis and understanding of the true trend of changes in the country's natal sex ratio during the 1980's.

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TRANSPORTATION

National Work Meeting on Container Transport Held

OW1811154091 Beijing XINHUA in English
1421 GMT 18 Nov 91

[Text] Ningbo, November 18 (XINHUA)—China will double its annual volume for container shipping during the next ten years, according to reports released at the national working meeting on container transportation held today in Ningbo city, Zhejiang Province.

During the past ten years, the country's shipping departments have handled over 14 million containers.

According to information released at the meeting, the country's coastal areas will serve as a base for developing both domestic and international container transportation during the coming decade. In addition, coastal container transfer centers will be linked to the country's railway and highway networks. The development program will focus on establishing multi-system container network that is easily adaptable to international transportation systems, as well as to actual conditions in China.

An official from the State Council's Production Office called on both ministries and localities to invest in the construction of basic facilities for container transportation.

China will also introduce additional large container ships and will either renovate or construct a number of container harbors over the next five years. At the same time, nine international routes for container shipping, both land and sea routes, will be opened.

AGRICULTURE

Winter Planting in Guangdong To Rise 11 Percent
92P30052A *Guangzhou NANFANG RIBAO* in Chinese
14 Oct 91 p 2

[Summary] According to calculations based on the provincial agricultural inspection team's survey of 2,391 representative households in 32 counties, this year's area of winter planting in Guangdong will increase from last year's total of over 13 million mu to more than 14.3 million mu—an increase of 11.25 percent. This includes the area of grain crops, which will increase by nearly 300,000 mu, the area of cash crops, which will increase by more than 600,000 mu, and the planted area fertilized with green manure, which will increase by 358,000 mu.

Commentary on Increasing Farmland Yields
92CE0188A *Beijing NONGMIN RIBAO* in Chinese
12 Nov 91 p 1

[Commentary: "Make Major Efforts To Improve Medium and Low Yield Fields"]

[Text] The next decade will be a crucial period in the development of China's agriculture. Grain output will have to climb first to 450 billion kilograms and then to 500 billion kilograms. Realization of these two goals will require efforts to increase yields, and improvement of medium and low yield fields is a major task in improving yields. Statistics from departments concerned show that medium and low yield fields still account for a very large percentage of China's cultivated land, and they cover a wide area. They are the key element limiting increase in the country's total grain output. Government departments at all levels must arouse a high degree of attention, make major efforts, spend a lot of time, and take genuinely effective action to deal with this problem, mobilizing a vast army to bring about a nationwide upsurge in the transformation of medium and low yield fields.

During the Sixth and Seventh Five-Year Plans, the science and technology experimental tracts, foremost of which were the medium and low yield fields on the plains of the Huang, the Huai, and the Hai rivers, served as a prelude to the transformation of China's medium and low yield fields, and they have already shown initial results. It must be realized, however, that the problems that China faces are very serious. Results of soil surveys

and satellite measurements show that more than half of the country's 2.095 billion mu of cultivated land consists of medium and low yield fields. The low yield field area is greatest in north China where there are 240 million mu. In the middle and lower reaches of the Chang Jiang, in south China, in the northeast, on the loess plateau, in the northwest and in the southwest, and on the Qinghai-Tibet Plateau, low yield fields also cover an area of more than 100 million mu. Furthermore, the area of greatest distribution is the drylands of north China where transformation is very difficult, making the task an extremely daunting one.

Reasons for the low yields of medium and low yield fields include a low photosynthesis utilization rate and small inputs. According to 1987 statistics, high yield fields nationwide received 78 kilograms per mu of standard fertilizer; medium yield fields received 60 kilograms, and low yield fields received 32 kilograms. Therefore, the country's potential for increasing grain yields simply by increasing inputs to increase the photosynthesis utilization rate is very great. Many years practice in the transformation of medium and low yield fields demonstrates that the building of complete water conservancy project facilities, as well as scientific biological measures and advanced farming systems, can greatly increase grain yields. For example, an increase in yields by between 100 and 150 kilograms may be obtained from the transformation of gleyed paddy fields, and waterlogged and saline land. Transformation of drylands to wetlands can produce a yield increase of between 150 and 200 kilograms. The transformation of dryland plots that lack irrigation can increase yields by 100 kilograms; and the transformation of cultivated land of low fertility on slopes, windblown land, overly sticky and overly sandy fields, and fields having a thin cultivated layer can increase yields between 50 and 100 jin. Authorities concerned estimate that transformation of the 1 billion mu of medium and low yield fields in China's 14 southern and 16 northern provinces could increase grain output 69.35 billion kilograms by the end of the present century for a 69 kilogram per mu yield increase.

The key to success or failure in the transformation of medium and low yield fields lies in scientific and technical inputs. As Comrade Li Peng said, "The key element is reliance on science and technology." Since founding of the People's Republic, China's grain yields increased from a few score kilograms in the period immediately following liberation to the present several hundred kilograms per mu. The tremendous increase in output each harvest during this period was attributable to the spread of science and technology. Despite the marked rise in China's overall technological level in recent years, statistics in relevant data show that increased agricultural yields today are only about 30 percent the result of science and technology, and only 36 percent in high yield provinces. In some economically developed countries, however, it is between 70 and 80 percent, showing that a very great potential exists in China for increasing grain output through science and technology. Development of

the plains of the Huang, the Huai, and the Hai rivers, and the Dabie Shan in recent years provides eloquent testimony that grain yields can be increased several fold.

Translation of science and technology as quickly as possible into real productivity through the transformation of medium and low yield fields also requires the use of every possible means to arouse the interest of departments responsible for spreading the results of scientific research. As in the case of the development of the plains of the Huang, Huai, and Hai rivers, more scientific and technical personnel must be encouraged to tackle key scientific and technical problems and to take part in the contracting of technology. Additionally, a problem in the transformation of medium and low yield fields that merits serious attention is how to consolidate and develop results that have already been gained. Numerous medium and low yield field regions are located in remote and backward parts of the country where ability to withstand natural disasters is poor. Once a serious natural disaster strikes, plots that have been transferred may revert to their original state. Therefore, consolidation of already won gains will require the formulation of effective long-range measures that truly provide reserve strength for the sustained development of already transformed medium and low yield fields.

One may be sure that only through unflagging efforts can greater achievements definitely be won in the task of transforming China's medium and low yield fields.

Socialist System Solves 'Food Problem'

HK2611135391 Beijing QIUSHI in Chinese No 19, 1 Oct 91 pp 23-27

[Article by Guo Shutian (6753 2579 3944) and Zhang Hongyu (1728 4767 1342) of the Policy and Structural Reform and Laws Department Under the Ministry of Agriculture: "Socialist System Has Solved Chinese People's Food Problem"]

[Text] I. Outstanding Achievement and Global Contribution

In 1949, when New China was just founded, the country had long suffered from the destruction of invasions and wars and from the reactionary rule of the Kuomintang [KMT]. The foundation for grain production was quite weak and yields were very low. 1936, before the liberation, was the year that had the best grain output record. Compared to that record, grain output in 1949 fell by 24.5 percent and rice, wheat, and soybean output fell 15.2, 40.8, and 54.9 percent respectively. The imperialists and the KMT authorities who ran to Taiwan gloated over the misfortunes of China's financial and economic difficulties, especially the food problem. In a letter to President Truman, U.S. Secretary of State Acheson wrote: "The problem of feeding the people is the first problem that every Chinese Government will encounter. Up until now, no government has been able to solve this problem." The imperialists predicted that the people's government led by the CPC would not solve this

problem either. To make the situation more difficult for New China, they reinforced the implementation of an economic blockade, exaggerated propaganda about famine, and took various destructive measures, hoping in vain that they could strangle New China in its cradle. Therefore, the questions of how to recover and develop grain production swiftly and how to solve the food problem of the people were the major issues confronting the CPC and the people's government.

To solve this problem, we had to deal with a low original productivity level. Moreover, there were two special difficulties. First, China is the world's most populous country. In 1949, the population base was already 541 million. By 1990, the continental population had reached 1.133 billion. The average annual increase has been 18.2 percent and population growth has exerted great pressure on grain provisions. Second, China has a large land area, but the area that can be used for cultivation is not big. Besides, various construction industries have been built on this arable land. In the last 40 years, the amount of arable land being used for other purposes offset the amount of newly cultivable wasteland and resources, and the total area of arable land has been reduced. Swelling population and diminishing arable land together lead to a continuous decline in the amount of average arable land per capita. In 1949, the amount of average arable land per capita in China was 2.71 mu; in 1989, the amount had dropped to 1.29 mu.

Against this background of increased population and decreased land, China's total output of grain continues to increase. In 1949, the total grain output of the entire nation was 113.18 million tons. In 1990, total output reached 425 million tons. The average annual increase of grain output was 7.6 million tons and the rate of increase was 3.28 percent, surpassing the scale of population increase. In 1949, the amount of grain per capita was 208 kg; by 1990 it had increased to 375 kg, an average annual increase of four kg in the amount of grains per capita. When more grains are available, animal husbandry can then be guaranteed. During the last 40 years or so, both urban and rural diets have changed a great deal. More and more meat, eggs, milk, and seafood are consumed. The proportion of protein and fat in people's diets continues to rise.

After several decades of hard work, China now has the highest grain output in the world. The increase in grain production has not only surpassed the average world increase, but countries like the United States, Russia, India, France, and Japan. Comparing the 1987 record with 1949, grain output in China has risen 257.6 percent. For the same period of time world grain output increased by 146.5 percent; in the United States, 112.6 percent; in Russia, 146.5 percent; in India, 141.2 percent; in France, 232.7 percent, and Japan had a negative growth rate of -9.3 percent.

The basic way to increase the total grain output in China is to work hard to improve the amount of grain yield per unit area and improve the utility rate of resources to the

maximum degree. In 1949, China's grain yields per mu were 8.4 kg lower than the world average. By 1978, grain yields were 38 kg higher than the world average, and by 1987, output had been further increased to 67.1 kilos above the world average.

Under CPC leadership, we have managed to solve the food problem for 22 percent of the world population with only 7 percent of the world's arable land. Not only is this an outstanding achievement for China, it is also a great contribution to solving the global problem of hunger and poverty.

II. How Does China Solve the Problem of Feeding Its People by Depending on the Socialist System?

Basically speaking, the increase in grain production in New China over the last 40 some years is the result of upholding the socialist system. The following are some concrete experiences.

A. From the beginning to the end, the party and government have valued the agricultural issue. They uphold the national economic development policy of "building the foundation with agriculture."

In the initial stage after New China was founded, Comrade Mao Zedong repeatedly emphasized that "agriculture was the foundation of the national economy." He emphasized the importance of mutual coordination between grain production, industrial development, and national economic construction. All of the forces of the entire party and nation were mobilized to vigorously support agriculture, especially after the party adopted the "Resolution on Several Problems Related to the Acceleration of Agricultural Development (Draft)" at the Third Plenary Session of the 11th CPC Central Committee, which stated that a major task of developing the national economy is agriculture. At subsequent major conferences, we repeatedly emphasized the foundation role of agriculture, the coordinated development of industry and agriculture, and emphasized that while readjusting the rural industrial structure we must uphold the policy of "never slighting grain production and actively developing a variety of industries." During the five years between 1982 and 1986, the central authorities continuously released five No. 1 documents on agricultural problems. During the last two years, the new leading circle of the CPC Central Committee have gone to investigate and study the rural areas many times, emphasized the importance of maintaining various basic policies for rural areas, and urged party and government offices at all levels to continuously strengthen their leadership in agricultural development. Also, at the Fifth and Seventh Plenary Sessions of the 13th CPC Central Committee the party emphasized that one important task during the period of improvement and rectification is to value, support, and develop agriculture in order to achieve continuous, steady, and coordinated development of the national economy. From beginning to end, the CPC and government have always upheld the correct

policy of "building the foundation with agriculture." This is an important safeguard for solving the food problem in China.

B. We uphold the socialist cause with the public ownership system as the main body, reform the economic system by following the demand of productivity development, and mobilize the enthusiasm of every sector.

The basic question concerning economic movement is how to integrate producers and the means of production. In old China, the landlords and rich peasants, whose number amounted to less than 10 percent of the rural population, owned 70-80 percent of all arable land in the country. Each year, the landowner class charged the peasants high rents for the land, extorting 50-70 percent of their harvest. Massive amounts of peasants had to toil all year round, yet never had enough to eat or wear. Agricultural productivity was seriously restricted. This was the basic reason why grain production in old China was in a long period of stagnation. The eradication of the feudal land ownership system was not only an essential task of the new democratic revolution, it was a basic demand of rapidly liberating productivity in rural areas. During the liberation war, with the help of the party leadership, the 150 million peasants living in liberated areas achieved land reform. By September 1952, the entire country had essentially achieved land reform. Another 300 million or so peasants were assigned land and given large amounts of the means of production. They no longer needed to pay land rents, amounting to approximately 3.5 billion kg of grain every year, to their landlords. In addition to this, the state offered them support in taxation, finance, loans, and supplies of the means of production at the same time. Peasants' enthusiasm in agricultural production was the greatest ever. Total agricultural output value in 1952 was 48.4 billion yuan, surpassing the highest record before the liberation. Total grain output was increased from 113.18 million tons in 1949, to 163.92 tons, a 48.2 percent increase. Later, to help peasants overcome the difficulty from separate management, to prevent polarization, to increase their ability to withstand various natural disasters, and also to allow the country to have more grain commodities, the party and government actively led the peasants and masses toward the path of mutual aid and cooperation in agriculture again, and the socialist reform of agriculture was realized. From mutual aid teams to cooperatives, the changes in agriculture promoted the development of production. Production of major agricultural crops such as grain continued to maintain high growth rates. By 1957, total grain output was 195.05 million tons, 19 percent higher than 1952.

After 1957, the blind pursuit of the organizational format of "one large and two collectives" and the unrealistic initiation of the people's communes severely impaired peasant initiative in farming production. Also during this period, the agricultural development policy had defects. The policy put undue emphasis on grain yields and restricted peasants from engaging in a variety of farm production. In the end, the policy did not

promote growth in grain production at all. Not only this, it also led to stagnant economic development in rural areas and in the end damaged the entire national economic development. At the Third Plenary Session of the 11th CPC Central Committee, the party summarized both the positive and negative experiences and decided to implement intensive system reform in rural areas. All peasants were to receive support and guidance from party and government organs at every level. After many trials, a multiresponsibility format based on the household responsibility system of linking remuneration to output was extensively implemented. The system closely integrated rewards for workers with labor results and released the people's initiative, which was once restricted by the "one big rice pot" system. Labor efficiency increased many times. The household responsibility system of linking remuneration to output does not mean individual farming, it is a production format of the collective economy. On the basis of implementing a separate contract management system, agriculture still maintains its collective function through unified management. This helps individual peasant households solve problems that they cannot solve on their own. The collective has the capacity to provide many services to peasant households. The system of combining unified and separate managements fully mobilizes the initiative of peasant households and collectives. It matches the characteristics of agriculture and at the same time accommodates many different standards of productivity. This system helps develop and improve the socialist collective economic system in rural areas. Over the last 12 years, because of the implementation of the household responsibility system linking remuneration to output, grain production, agriculture, and the rural economy have had comprehensive and continuous development, and a new chapter of Chinese agricultural history has begun.

3. We rely on the superior socialist system and mobilize the manpower and material power of the entire nation to energetically support agriculture and improve the material conditions for agricultural production.

The superiority of the socialist public ownership system enables us, within the range of the entire society, to concentrate all necessary manpower and materials in accomplishing major business. After liberation, the party and government mobilized every sector of the country and worked extremely hard to change the backward conditions of agricultural production that originated in the old society. To begin with, we should look at the amount of funds invested in agriculture. First, in 1952 the state's annual investment in capital construction for agriculture was 646 million yuan; by 1989 the amount had risen to 5.065 billion yuan, a 684.1 percent increase. Second, the total state financial subsidy to agriculture was 274 million yuan in 1950; in 1989 it was 19.907 billion yuan, a 73-fold increase. This measure has immensely promoted the development of various aspects of the agricultural economy. Third, agriculture has been supported by bank loans. Fourth, individual

peasants also wanted to increase grain supplies, therefore, they allocated a large amount of funds for collective economic organizations in their villages.

Next, we should look at the development of chemical fertilizers. In 1949, in the entire country only Dalian and Nanjing had chemical fertilizer factories. After liberation, through continuous development China has changed from having no chemical fertilizer industry to establishing the enterprise and the enterprise has grown into a large business from a small start. The industry has made a great contribution and has transformed traditional agriculture into modern agriculture. During the 1970's, Chairman Mao Zedong and Premier Zhou Enlai decided to import 13 plants from abroad, each plant could produce 300,000 tons of chemical fertilizers a year. This was of enormous significance to the development of the chemical fertilizer industry in China. Today, China is the third largest producer country of chemical fertilizers and pesticides in the world. Total output of chemical fertilizers in 1990 was more than 90 million tons, and use of fertilizers was more than 100 percent higher than 1980. According to estimates, as regards the factors involved in increasing grain output per mu, chemical fertilizers are responsible for more than 50 percent of the increase. Third, there has been the development of mechanized agriculture. "The basic solution for agriculture is mechanization." Before liberation, it was pointless to talk about a modern agricultural machinery industry in China. In 1948, there were merely 300 or so imported tractors and a few power machines for irrigation and drainage in China. After liberation, supported by enormous help from the state, our agricultural machinery industry has become a more established and comprehensive system, a system that can produce the main engine and spare parts, that can assemble the power machines and equip them, that can work on scientific research, design, and manufacturing, and that can make sales and do repair work. The development of the agricultural machinery industry has directly promoted the development of agricultural mechanization. The overall power used in mechanized agriculture in the nation's rural areas has increased from 180 million watts in 1952 to 280.67 billion watts in 1989. The number of medium and large-size tractors has increased from 1,307 to 848,220. The number of combine-harvesters has increased from 284 to 36,582. The number of trucks for agricultural use has increased from 280 to 625,116. Small tractors and motor pumps for agricultural irrigation and drainage have also come into existence and multiplied swiftly. The development of mechanized agriculture has helped to gradually liberate peasants from traditional farming methods. In 1952, only 0.0013 percent of the arable land in China was mechanically farmed. By 1989, it was 44.5 percent.

Fourth, the entire nation has been mobilized into working for the capital construction of farmland irrigation systems. "Irrigation is the life-line of agriculture." At the beginning of the post liberation period, the irrigation system in China was quite backward. In 1952,

only 18.5 percent of the nation's farmland had effective irrigation. Over the past several decades, the state has invested a great deal in irrigation systems. By 1989, the nation had constructed 82,848 small, medium, and large-size reservoirs with an overall capacity of 461.731 billion cubic meters. Moreover, the party and government lead the peasants and mobilized every sector and industry in the nation to give their greatest effort and to exhort themselves. Large amounts of human and material power has been put into the construction of infrastructure in farming areas. This has greatly improved the conditions for production. By 1989, the amount of effectively irrigated area in proportion to the total amount of cultivatable land had been raised to 49 percent, much higher than the world average level. Since 1989, there has been another upsurge in the build up of irrigation systems in farming areas. Compared with the years before, there has been a great improvement, whether it is in the amount of aggregate labor and cubic meters of earth used for capital construction in agriculture, the increased areas of farmland under irrigation, in the area of land rescued from erosion, and in the area of low and medium quality farm land being transformed. This year, one after the other, large areas in the south and north east of China were damaged by serious flood disasters. Irrigation facilities made important contributions in the struggle against disasters and reduced tremendously the amount of damage caused by the floods.

Fifth, we have actively worked for the development and establishment of a commodity grain base. In order to promote the steady increase of grain production, the state has since 1983, begun to initiate the format of combining central and local investments. Following our plan and procedures, we have established a number of commodity grain bases in China's major grain production regions. In 1990 the total amount of grain output from the counties where the 274 commodity grain bases were built was 116.60 million tons. These bases provided 40 million tons of commodity grain, 34 percent of the commodity rate. The state has also set up a comprehensive agricultural development fund by collecting farmland user tax and spending it on comprehensive development of agricultural resources. This measure has played an important role in safeguarding the continuous and steady growth of grain production in China.

4. We have developed agricultural science and technology and used science and technology to increase grain productivity.

The number one productive force is science and technology. The application of science and technology has an irreplaceable function in modern agricultural development. Before liberation, China's scientific and technological capability in agriculture was very weak. In 1950, there were only 10 agricultural technology promotion stations, 143 animal breeding stations, and 251 veterinary stations in the entire country. As for places providing seeds, improved plant varieties or weather forecasts; they did not even exist. Over the past several decades, the state has made a great efforts to set up and

train agricultural science and technology teams. In 1989, China already had 16,211 agricultural technology stations, 397 animal breeding stations, 7,556 veterinary stations for livestock, 2,742 seed stations (companies), 2,377 state-run seed multiplication farms, and 2,586 various levels of meteorological observatories or stations. Agricultural technicians, working diligently under difficult conditions, have achieved extensive success in conducting scientific research on breeding improved varieties of seeds, preventing and curing plant diseases, and advancing cultivation techniques. They have also applied the results of this research in agricultural production. Many of these research projects have met world advanced standards. In the areas of popularizing and promoting scientific and technological results, we have also created many experiences that can be effectively implemented. For over 40 years, the development of agricultural science and technology has made a great contribution to increasing grain production.

5. We reformed the grain circulation system and guaranteed to meet the people's basic demand for grain.

Production determines circulation. On the other hand, whether circulation is smooth or not affects production. One superior character of socialism is that the state can rely on the commercial strength of the public ownership system to regulate commercial policy and systems at the proper time. In this way, circulation adapts to production developments. During the initial period after the founding of New China, we essentially depended on the individual peasant economy for grain production. At the time, we had a free transaction system run by the state commerce department. By following the plan, the state commerce department raised the purchasing prices of agricultural products including grain, maintained or lowered the selling prices of industrial products for agricultural use, and gradually reduced the "scissors differential" in prices of industrial and agricultural products. This motivated the peasants to take the initiative in expanding agricultural production, promoted gains in grain output, and stabilized the grain market. After 1953, because of the nation's industrialization and the improvement in people's living standards, grain consumption increased a great deal. Because private businessmen engage in speculation and profiteering in free grain markets, peasants with extra grain were unwilling to sell their goods and there were shortages in grain provisions. To solve this problem, aside from working harder to increase grain production, the state has monopolized all purchases and sales of grain since 1953. Except for the years when excessive amounts of grain were collected, the amount of grain required from peasants for state purchase over the past 30 years has been acceptable to the peasants. Basically, we are able to satisfy the grain consumption needs of people in urban and rural areas and are also able to meet the industrial demand for grain. As grain production developed, the state monopoly purchase and sale system also began to show defects. The cost of production continued to rise, yet purchase prices of grain were never promptly

adjusted. As a result, the peasants lost their enthusiasm to produce grain. For consumers, low priced grain had become a "welfare good," and there was a large amount of waste. To solve this conflict, the state would on the one side sell the agricultural means of production at low prices to peasants, and at the same time, provide agricultural supplies industries with subsidies. On the other side, the state increased purchase prices for agricultural products several times. The Third Plenary Session of the 11th CPC Central Committee made a special decision to raise all purchase prices of grains by 20 percent as soon as the summer grain of 1979 was available on the market and purchase prices for grain collected above the quota was increased by 50 percent on the basis of the rise. In 1980, the purchase price of grain had another 8.1 percent increase. During those two years, because purchase prices for agricultural products including grains were raised, there was a 46 billion yuan increase in peasant incomes. In the years following, purchase prices of major agricultural products were also raised successively. Comparing prices between 1979 and 1986, we can see that the general level of purchase prices for agricultural products has risen by 77 percent, an average of 9 percent a year. In 1985, the state abolished the monopoly system of purchasing and marketing agricultural products, a system that had been implemented for more than 30 years, and decided to make the purchase of major agricultural products such as grains follow a contract system. The prices of agricultural products not listed in the contract could be regulated by the market. 1989 and 1990 were two years with bumper harvests. In 1990, total grain output was as high as 435 million tons, way above the highest historical level recorded. Grain prices in the market went down. In order to protect the interests of the peasants, the State Council decided to set up a special grain reserve and bought up the peasants' grain at protective prices. At the same time, the state separately established national and local grain wholesale markets. Because the state has implemented these measures in the sphere of circulation, it has effectively preserved peasant initiative in agricultural production and has also promoted production development.

III. Unify Our Understanding, Advance Grain Productions to a New Stage

We relied on the superior socialist system and we solved the people's food problem, the problem that no government in old China could solve. This historically great achievement is apparent to everyone. However, we cannot yet say that we have ultimately solved the grain problem. From a long-term view, the situation in agriculture and grain production remains serious. First, the agricultural foundation is still weak and the capacity of comprehensive production needs to be improved. At the present stage, China's capacity to achieve comprehensive agricultural production is basically at a level of

producing 400 million tons of grain and 4 million tons of cotton a year. The aspect of agricultural production being determined by nature has not entirely changed. Because of the longstanding profit pattern formulated through national economic distribution, the comparative differential between the economic returns of industrial and agricultural developments, and especially because investment in agriculture over the last few years has been cut back, the agricultural foundation has weakened. Many irrigation projects have not been kept up or have been left to age. Hence, their ability to resist disasters has been reduced. The amount of agricultural damage caused by natural disasters was 4 percent higher during the Seventh Five-Year Plan period than during the Sixth Five-Year Plan period. This year, parts of China encountered some historically rare flood disasters. These misfortunes have also revealed weak points in the irrigation works in recent years. Second, an increased population, reduced arable land, and economic development are exerting more and more pressure on grain production. Total grain output in 1990 reached a historical record, yet the amount of grain per capita was 15 kg lower than 1984. As the economy develops and the people's consumption standard becomes higher, the demand for grain will get stronger and stronger. We must improve capacity in grain provision as well as strictly controlling population growth. Third, the circulation system for agricultural products is not quite smooth and grain prices are still too low. In recent years, the price relationship between agricultural products and agricultural means of production has been unbalanced. Peasants' economic returns are not in step with production increases. This has dampened the peasants' enthusiasm for increasing production. Meanwhile, grain purchase prices are tending higher and higher and the burden of financial subsidies becomes heavier and heavier. This is making it difficult for the state to continue the subsidies. Therefore, as we make proper increases in grain purchase prices, we must implement overall reform of the circulation system for agricultural products. This has become our most immediate task. This year, the state has appropriately raised the market price for grain in urban and rural areas. The results have been good. From now on, we must steadily intensify this item of reform. Fourth, scientific and technological service systems are imperfect, preventing scientific and technological achievements from being transferred into productivity. Today, of all the factors contributing to increases in agricultural production, only 30-40 percent can be attributed to agricultural science and technology. This is not an ideal condition. One reason causing this to happen is that agricultural science and technology service organizations, especially the grass-roots service organizations in towns and townships, are not well set up. The people working there are not permanent and middle school or college graduates have no way of going to the grass-roots level. This is an important problem requiring our serious attention.

As early as 1982, the 12th Congress of the CPC said that on the basis of improving economic returns, we would work hard to quadruple the GNP and improve the people's material cultural lives to a comfortable level by the end of this century. The requirement for achieving this objective is that by the end of the century GNP per capita should reach \$800-1,000 and grain per capita should be 400 kg. At the Seventh Plenary Session of the 13th CPC Central Committee the party reaffirmed this objective. As we can see, there may be difficulties in achieving the goal of 400 kg of grain per capita. It is absolutely possible to achieve the objective as long as we persistently and thoroughly implement the party's lines, guidance, and policies, truly put agriculture in the basic position of the national economy, correctly deal with the relations between industry and agriculture, motivate the socialist initiative of millions of peasants, and work intensely and extensively for agriculture.

Progress Achieved in Production of Animal Feed

*OW1112143291 Beijing XINHUA in English
1316 GMT 11 Dec 91*

[Text] Beijing, December 11 (XINHUA)—China has become one of the largest feed producing countries in the world, a recent issue of FARMER'S DAILY reported.

At present, China's annual feed processing capacity has reached 60 million tons and the annual output of mixed feed is 31 million tons, ranking third in the world, according to the paper.

During the Seventh Five-Year Plan period (1986-90), China has invested 32 million yuan in 400 research institutes and can now produce varieties of feed suitable for raising pigs, chickens, ducks, fish, shrimp, and milk cows.

The proportion of the output value of animal husbandry to that of agriculture has grown to 24.7 percent in 1990 as against 19.1 in 1984.

Factors Undermining Stability in Reform Era

92CM0012A *Shanghai SHEHUI [SOCIETY]*
in Chinese No 8, 20 Aug 91 pp 15-18

[Article by Zhang Wenhong (1728 2429 1347): "Cursory Analysis of Elements for Instability in Reform and Opening to the Outside World"]

[Text] China is currently in the modernization process of intensifying reform and widening the opening to the outside world. In this systems engineering process of conscious and complete social change, China is going through a profound transformation of social life at all levels that extends from individual patterns of thinking to the way of life, from the national political system to the economic system, and from international relations to value concepts. These intense social changes not only bring in their wake the full-speed development of social productivity, steady improvement in the labor productivity rate, and huge changes in the way of life and value system, but also occasion, to a certain extent, losses and disjunctions in economic life, political life, and value concepts. Some local areas have even experienced unsteadiness in the form of social shocks, clashes, and confusion. Analysis of the elements for instability in reform and opening to the outside world is a prerequisite for the eradication and prevention of the instability that reform and opening to the outside world occasions for society, society thereby being able to maintain fine operation and coordinated development from a stable foundation.

1

Unfair distribution is a major economic reason for the impairment of social stability and coordinated development. So-called unfair distribution means mostly distribution inequities. It is a subjective evaluation of unfairness in distribution that most members of society make on the basis of moral principles.

In every situation, social instability may be traced to unfairness. Reform and opening to the outside world have brought about a readjustment of the interest relationships of different strata and of different interest groups and blocs. It has both demolished the old irrational pattern of distribution of benefits and has also given rise to new inequities in the distribution of benefits. Currently, distribution in China is unfair in the following several ways:

(1) The earnings of some owners of private enterprises, individual operators, leased enterprise contractors, and the staff members and workers of some industries (such as taxi drivers, staff members and workers in service units that provide services to foreigners, staff members and workers in Sino-foreign joint ventures or wholly foreign-owned enterprises, staff members and workers in second occupations, some workers in literature and art, personnel reemployed following departure or retirement, brokers in the commodity flow field, and personnel having control authority over scarce materials). Their

earnings are several times, more than 10 times, several score times or even as much as 100 times that of most people. To permit some people who operate astutely and who work diligently to become rich first, their earnings being somewhat higher than that of most people, is understandable, but when the gap between the earnings of most people is excessive, that is unreasonable. Furthermore, a substantial number of the aforementioned personnel have become wealthy through illegal means.

(2) There is too great a difference between one industry and another and one sector and another in inputs of equal amounts of money and labor and in earnings. For quite some time commodity prices in some of the country's economic sectors, such as agriculture, energy, transportation and communications, have been too low as a result of state command plan control, while prices of needed means of production have been too high. In a commodity economy system, these economic sectors' investment of funds and labor is unable to produce income equal to that of other sectors.

The unfairness of distribution between one sector and another and one industry and another also shows up in an overly large disparity in inputs of equal amounts of labor and capital and in benefits received in the production sector and business sector. Relevant state legal institutions and laws are not sound; in addition, the objective existence of the two track price system in the commodity circulation realm results in labor earnings in businesses and service industries that greatly exceed those in the production sector. Service personnel in guest houses receive wages that are higher than those paid to high ranking engineers in enterprises in general. That this occurs is the best evidence of the unfairness of distribution.

(3) Economic returns from the investment in intellect are poor, and the inversion between earnings of mental laborers and physical laborers is yet another serious social distribution inequity. During the period immediately following founding of the people's republic, the maximum wage of a professor was approximately three times the highest wage of a worker, and the maximum wage of an engineer, a medical doctor, and an editor was about two to three times the maximum wage of a worker. The announcement after 1957 of the eradication of the difference between mental and physical labor resulted in a situation of no change for several decades in the wages of intellectuals. With the advent of reform and opening to the outside world, an "inversion" has begun to appear between the earnings of those who do mental and physical labor. In recent years, the disparity in the "inversion" has gradually widened. Nowadays, the earnings of those who spend several thousand yuan on a college education or even to become a graduate student is lower than that of primary school students who dropped out of school early to go to work and that of middle school graduates. That the income of people who make a major investment in intellect is lower than that of those who invest little in intellect is an extremely abnormal phenomenon of unfair distribution peculiar to China.

(4) Egalitarianism that is seemingly impartial is actually universal unfairness of distribution. Under a system of distribution according to work, the more one works the more one should receive, the less one works the less one should receive, and those who do no work should receive nothing at all. However, this distribution principle has not been very well put into practice. In a substantial number of enterprises and institutions, bonuses do not correspond to the quality of an individual's work, nor do they reflect the size of individual contributions. A "large common pot" phenomenon exists in wage raises and promotions, in the titling of professional positions, and in the assignment of housing, which further bolsters and intensifies this unfairness in distribution.

The above mentioned several kinds of unfairness in social distribution has already led, to a certain extent, to social instability, and it contains the seeds of a serious social crisis:

First of all, overly high profits in the commodity circulation realm have led to a prolonged craze on the part of the entire populace to go into business, and this craze shows no sign of abating. Some industrial plants and schools have scrambled to operate tertiary industries. Peasants have banded together both producers and marketers into a single body to go into cities to sell agricultural by-products; even military units run restaurants and shops; and some party and government agencies have also put to work the advantages they enjoy to establish economic entities in which there is no separation between government administration and enterprise management and in which a distinction between government and commerce is difficult. In the process of improving the economic environment and rectifying the economic order, although government has closed some illegal companies, it has not fundamentally changed the situation in which everyone is eager to do business. Under circumstances in which the commodity economy is undeveloped, pertinent national policies and laws are not well established, and particularly in a situation in which a two track price system exists, those doing business can avoid following the principle of commodity exchange at equal value. Simply by increasing the number of middlemen involved, high profits can be gained. Inevitably this causes a decline in productive investment that results in investment in the commodity-flow field of a large amount of capital and labor.

Second, unfair distribution between one industry and another and one sector and another has led to proportional imbalances in the national economy. An important reason for the low level of development of agriculture, energy, communications, and transportation can be found in the low investment of profits in these sectors, thereby making an expansion of reproduction rather difficult. The economic overheating that has occurred time after time in recent years has made already unbalanced economic development even more unbalanced. The overly high profits in the processing industry sector actually stem from a transfer of profits from the production sector. State subsidization of losses resulting from

policies in these sectors superficially cover up the unfair distribution between one industry and another and between one sector and another.

Third, economic returns from the investment in intellect, and the inversion in earnings for mental versus physical labor have led to a devaluation of knowledge, an outflow of human talent, and a new "theory of the uselessness of study." In recent years, the number of graduate students sitting for masters degree and doctors degree examinations has declined year after year. An important reason why so many professors who are fairly renowned throughout the country are unable to attract qualified graduate students, why so many teachers and scientific researchers have left their profession to go into business, why large numbers of middle and primary school students have dropped out of school, and why many teachers and students studying abroad remain abroad, delaying their return time and time again once they have completed their studies, may be found in the average income of Chinese intellectuals being lower than for common physical laborers. The poor economic return on investment in intellect and the inversion of income between mental and physical laborers has very greatly damaged continuity in the intellectuals corps, thereby causing losses for the country and the people that are difficult to estimate.

Fourth, the social instability that egalitarianism has brought about has resulted in the stifling of workers' enthusiasm for production and creativity, slowness in the development of productivity, shortages of material goods, and poor economic returns from enterprises. Even though quite a few enterprises have imported modern equipment and raised their technological level since reform and opening to the outside world, the labor productivity rate continues at a fairly low level. During this preliminary stage of socialism, labor still has the character of a means of earning a living when the level of workers' income should be based on the quality and quantity of labor provided. However, since egalitarianism has not been fundamentally eradicated, apathy about work in enterprises is extremely rampant. In a certain sense, the steady increase in the number of failing enterprises and the straight line rise in the number of hidden unemployed results from egalitarianism.

2

The unhealthy social atmosphere is yet another important reason for social instability and uncoordinated development. The social atmosphere is manifested in every aspect of social life; therefore, broadly speaking, the social atmosphere includes the party style, the work style in industry, and the work style in a profession.

"Beginning during the latter part of the Great Cultural Revolution, the rising and unchecked unhealthy atmosphere spread to disastrous proportions in China." Following the Third Plenary Session of the 11th CPC Central Committee, the bringing of order out of chaos, the revival of seeking truth in facts, and the linking of

theory to practice improved democratic life within the party, and a marked improvement in party style occurred for a time. A trend for the better also occurred in the social atmosphere, thereby bringing about since reform and opening to the outside world a fine situation of unity of the people and of social stability.

However, it cannot be denied that in the process of the beginning of a turn for the better in party style and social atmosphere, the dying embers of some old and incompletely snuffed out unhealthy tendencies in society revived, and new unhealthy tendencies in society sprang up one after another. In recent years, party style and the social atmosphere have become the most discussed hot topic among cadres and the masses both inside and outside the party. A random sampling of attitudes in political and social life conducted among 10,000 staff members and workers nationwide by the Sociology Institute of the Chinese Academy of Social Sciences in 1988 showed that among the topics in political and social life in most urgent need of solution, "unhealthy party style" placed first at 63 percent. In second place was "bad social atmosphere" at 55 percent. This showed that unhealthy party style and social atmosphere evoke a strong reaction from the public and damage social stability to a certain extent.

Unhealthy party style and social atmosphere are manifested largely in the following several ways:

(1) A small number of leading party and government cadres act corruptly, abusing their authority for private gain. In his famous book, "Political Order in Changing Societies," the renowned American scholar Huntington said: Corrupt behavior means "conduct whereby public employees violate generally acknowledged norms to seek private gain." Because of traditional Chinese concepts of official standards and the feudal rank system, because of the lack of an effective mechanism to control authority, and because a small number of leading party and government cadres regard the authority that the people have bestowed to be something that they personally own, the abuse of authority for private gain has become the main expression of an unhealthy party style. A small number of leading party and government cadres use the authority they hold to obtain graft, and to seek bribes. They build houses for themselves and take more housing than they are entitled to; they arrange work transfers for their own children and for relatives and friends; they misuse their authority to do business; and they even protect criminals. In his work report to the Fourth Session of the Seventh NPC [National People's Congress], Liu Fuzhi [0491 1788 0037], the public procurator-general of the Supreme People's Procuratorate, said: In 1990, a total of 94,686 criminal cases of graft and bribery were accepted for hearing, 51,373 of them placed on file for investigation and prosecution. Among the cases placed on file for investigation and prosecution, major cases involving 10,000 yuan or more numbered 11,295, roughly the same number as in 1989. Major cases involving 50,000 yuan or more numbered 1,113, and 1,188 cadres at the county department level or above were convicted. These

last two figures show a slight increase over 1989. Judging from the steady tracking down of a number of cases involving graft, acceptance of bribes and soliciting of bribes in recent years, a small number of leading cadres have been corrupted.

(2) Rampant spread of an unhealthy atmosphere in professions and trades. This so-called unhealthy atmosphere in professions and trades means one in which some workers in state agencies and some professions and trades misuse their special professional authority and the convenient conditions existing in their department or trade to seek private gain for their own unit, small group, themselves, their families, relatives, and friends to the detriment of the country and the public welfare. In a certain sense, the unhealthy atmosphere in trades and professions might be termed "quasi-corrupt conduct."

The rampant spread of an unhealthy atmosphere in trades and professions is related to the negative influence of the corrupt behavior of a small number of leading party and government cadres who misuse their authority for private gain. It is the result of the widening of the authority of positions. Even though the authority of people in charge of professional resources differs from the special authority of those who occupy high positions, they can still use the resources that they control in their position to control and manipulate others. Since professions and trades in society are of various kinds and since the resources that may be converted into authority are of many and various kinds, particularly those material resources closely associated with the needs of people's daily life, anyone who is able to use his position to control these resources actually holds the power to control others. This authority may be used not only to restrain and control people, but may also be traded in exchange for other authority, each side exchanging benefits within their own sphere of authority.

The unhealthy tendencies within the party and the spread like wild fire of unhealthy tendencies within trades and professions has produced an enormous "relationship network" in society. Within this unstructured and complex network, each person can act as a junction point. They can use informal private relationships and employ the authority and the resources that they enjoy free of charge and that they control to conduct all sorts of "exchanges." These "exchanges" are frequently conducted on the basis of personal attachments and bribery. They throw into confusion normal work relationships, interpersonal relations, and work procedures, damaging the interests of the state, collectives, and the public.

The existence of unhealthy tendencies in trades and professions are related to the shortcomings in China's economic system and administrative system. They are fundamentally attributable to the country's social means of production being nominally under the ownership of the whole people and collectives, but actually they are held without compensation by the individuals who administer them. The people who perpetrate improper activities in trades and professions in China today use

their own legal statuses as managers and administrators in the departments, trades, and professions in which they serve to use without compensation publicly owned means of production. The benefit they receive goes to themselves or to their own small unit or small group, while it is the interests of the state, collectives, and even the common people that is damaged. Not only does this corrupt the social atmosphere, but it also poisons and corrodes the people's soul.

Unhealthy tendencies within the party and unhealthy tendencies within trades and professions generate an extremely negative affect on social stability and coordinated development, which is manifested in the following ways:

First, unhealthy tendencies within the party damage the party's and the government's fine image among the masses, and they diminish the degree of the masses' confidence in the party and the government. The communique issued following the Third Plenary Session of the 13th CPC Central Committee said: "The graft, bribery, extortion, and profiteering in goods that are in great demand, as well as the squandering of public funds and the extravagance and waste, etc. that goes on among workers in party and government agencies are what the masses detest most.

No longer is this a matter affecting the individual morality of party members and cadres, but it damages the party's and the government's image as well. Although criminals and corrupt elements who graft and take bribes are an extremely small number of people among leading party and government cadres, since they occupy important positions and employ the authority conferred on them by the people to commit graft, steal the property of the state and collectives, solicit and take bribes, and wreck the administration and management system and the economic system, the damage they do to society is extremely great, and their effect on the common people is extremely bad. To a certain extent, they destroy the fine image that the party and the government have established among the public over a long period of time. As a result, some of the public begin to have ambivalent feelings about the party's and the government's policy of reform and opening to the outside world; the party and the government's prestige among the people declines, and relations between the party and the populace and between the cadres and the masses become estranged and worsen. Corrupt behavior among workers in party and government organs has become one reason leading to instability and even the jarring and shaking and upsetting of society.

Second is the pollution of the social environment and the poisoning of the masses' souls. Although the public exhibits profound loathing and pain about the use of privileged position and privileged occupations (or trades) for private gain; nevertheless, when the gains that these people have made are discovered, this profound loathing and pain is translated into imitation in the hope

of gaining privileged position and privileged occupations. Thus, the pursuit of power and privilege becomes increasingly intense in a vicious circle. The more that people express dissatisfaction about the misuse of authority for private gain, the more they make every effort to employ their own relationships and authority (including privileged positions and privileged occupations) for private gain. Then, the more people misuse their authority for private gain, the more people are displeased with the state of society. No wonder that a survey of morale conducted in Tianjin showed 58.3 percent of those surveyed as believing that it was "authority" that really played a role in real life, and 68 percent of those surveyed believed that "knowledge and reputation did not compare with the possession of real authority."

Third, unhealthy tendencies in society have brought about a lowering of public spirit, a depressed attitude, and a confidence crisis. As a result, the resurgence of high spirits that followed reform and opening to the outside world has abated once again. Today, society everywhere is filled with sounds of public grumbling and complaint. Although most people admit that they are the beneficiaries of reform; nevertheless, complaints have increased rather than decreased. Some of the public takes an apathetic view of the party's line, programs, and policies, or even harbors a negative attitude toward them; thus popular enthusiasm for work and creativity have generally declined. Unhealthy tendencies have also caused attitudes of pessimism, ennui, detachment, and disappointment about reality among some of the public; thus, they have lost confidence in China's modernization goals.

3

The muddying of value concepts is a cultural factor that hurts social stability and coordinated development. Value concepts are deeply rooted in social psychology concepts; they are at the deepest level of the cultural structure. Value concepts have a major influence on individuals, groups, and society, as well as on what plans and policies a nation adopts, the way of life, modes of behavior, or social association norms. In other words, value concepts play a guiding and a standardizing function for development of the economic system, the political system, and the cultural system throughout society.

Reform of China's economic system and political system inevitably means reform of cultural value concepts.

First, the socialist cultural system needed for the intensification of economic and political system reform and for the modernization that is suited to China requires a transformation of the traditional value concept system and the social norms system. However, people frequently adopt a negative attitude in dealing with traditional culture. While eradicating the feudal dregs within traditional culture, they also discard the cream. Consequently the fine outlook on life, value concepts, world view, and moral standards that have become established

through several thousand years of history have lost their former authority and position.

Second, with the steady intensification of economic system and political system reform, the old value concept system and morale standards system, which is no longer in keeping with present day needs, has collapsed. However, a new and modern value concept system and moral standards system has yet to be established, or it is still in an embryonic state. The members of society have become mired in a predicament that lacks clear-cut goals and standards for action. At the present time, cultural value concepts are in a disorderly state in which people are prone to experience a sense of loss and a sense of crisis in their beliefs and convictions. This increases the waywardness of people's thinking and their sense of loss about how to act.

Third, with the steady widening of the opening to the outside world, a large volume of foreign cultural value concepts that are incompatible with China's traditional cultural value concepts have entered the country. This has created serious conflicts with and challenges for China's indigenous culture. Some people adopt an unanalytical and uncritical attitude of acceptance in dealing with foreign culture, importing it lock, stock, and barrel and without considering that it does not suit China's national circumstances. Thus, they cause collisions and conflicts between Chinese and foreign cultural value concepts. Faced with such a situation, people may feel at a loss for what to do, or they may become bogged down in traditional cultural value concepts from which they are unable to extricate themselves and fiercely condemn the large amount of new things that emerge during reform. Alternatively, they may revel in foreign cultural value concepts, using foreign cultural value concepts as the guidelines and standards for judging everything. If this clash and deviation of cultural value concepts is not coordinated and unified over a long period of time to attain a new synthesis and if a new cultural value concept system and moral standards system cannot be built at once along with modernization, should an erroneous ideological theory orientation occur in the public opinion and propaganda system, this could have a bad effect on the whole realm of social life that would damage the ideological foundation for social stability and coordinated development.

There is no denying that in the process of change in the social structure in which the new is replacing the old during reform and opening to the outside world, various elements of instability that variously affect social stability and coordinated development may arise. These elements of instability will attack the social organism's economic, political, ideological, and cultural concepts occasioning some shocks and disquiet for society. We must clearly understand this. At the same time, reform and opening to the outside world must proceed in a basically stable social environment that has a high degree of consistency and inherent cohesiveness. This requires that the elements for instability be reduced or held down to the minimum.

We believe that a correct attitude must be to find a proper junction point between reform and opening to the outside world and social stability, maintaining the orderly development of society during the dynamic coordination of a society that is not in equilibrium. Our social stability concepts must be founded on development; it does not rule out change by any means, and it does not oppose reform and opening to the outside world. Instead, it requires protection of reform and opening to the outside world, and it requires orderliness in social change. Only in this way is it possible to provide a solid material basis for the coordinated development of society's political, economic, and cultural life, and only in this way is it possible to create a steadily self-perfected fine social environment imbued with vigor and vitality.

Rampant Fetishes, Superstitions Described

92CM0001A *Shanghai SHEHUI [SOCIETY]*
in Chinese No 79, 20 Aug 91 pp 39-41

[Article by Huang Jianquan (7806 0256 0356): "Shock Waves of Darkness—An Overview of Today's Superstition Problem"]

[Excerpts] [passage omitted]

The longstanding "enthusiasm for building houses" among peasants in recent years, has been offset by a raging "craze for building temples." While some peasants have hesitated to contribute funds for education, they have paid out money to build temples without demur, which no one has considered an "arbitrary apportionment" that has increased their burdens. While it goes without saying that the temples that existed before liberation have been basically renovated or rebuilt, even more new ones have been built. Reports on requests to build temples have been pouring into concerned departments in recent years, on such grandiose grounds as attracting sightseers and expanding tourism; giving people, the elderly in particular, good places in which to while away their spare time and liven up their mass activities; and even more so making friendly contacts with our compatriots in Hong Kong, Macao, and Taiwan and with overseas Chinese in order to attract investment. When building temples, a great many people think it too troublesome to submit applications for approval, so they simply either "act without authorization" or "act first and report later." One county in eastern Zhejiang now has over 500 temples, of which almost 300 were built since 1984, so that it basically has "one temple per village" and even as many as seven in one village. It is not just in developed coastal zones that this occurs because the zeal for building temples is absolutely no less even in impoverished areas. The folks in one infamously needy county in southern Zhejiang even dug up the money with which to enshrine and worship their gods despite empty stomachs. Over 20,000 yuan was raised voluntarily from every family to build their temple; it is so richly ornamented in such grand style! Yet, a schoolhouse in the same courtyard is on the

verge of collapsing, and its "halls of learning" are likely to fall at any time, even though it had become a dangerous building years ago.

While it is certainly a true portrayal of certain places to say that "their most beautiful buildings are temples and their worst ones are schools," the schools with buildings that are not quite up to the mark can be considered lucky in comparison to those that are being increasingly nibbled away at by temples.

A kindergarten in a certain village in western Zhejiang used to be a "convent." After liberation, its statue of the Virgin He was torn down, and it became first a collective granary and then in recent years a kindergarten, where over 60 children laughed, played, and received their initial education daily. Then, in the last half of 1990, an elderly local, a certain Mr. He, fell ill and, after seeking medical help everywhere to no avail, faced the wall in meditation, seeking blessings from the Virgin He, whereupon his illness was soon miraculously cured. He then vowed not to forget the Virgin He's "kindness," and went about soliciting alms with which to build a new statue of the Virgin He. Before long, he had hired a carpenter to carve out of camphorwood a statue of the Virgin He and two "Taoist attendants," which he had moved into the kindergarten. From then on, women from several neighboring counties and Jiangxi Province have been congregating there to pray and worship Buddha, over 300 of whom went to burn incense there on 18 April 1991 alone. One can easily imagine the impact on the learning of the children and on their physical and mental health by such daylong clouds of incense and the constant uproar in the kindergarten.

Its first high school was the highest seat of learning in a certain county in central Zhejiang. Superstitious activities have grown in intensity all around this school in recent years and have had an extremely bad influence on the education there. The school is located on the site of the former "Eastern Sacred Mountain Temple," and 23 April is the traditional birthday of the Jade Emperor (the supreme deity of Taoism). On this day in 1991, thousands of people, carrying great perfumed candles on their shoulders and sticks of burning incense in their hands, congregated at the school's enclosing wall to offer sacrifices, so fouling up the atmosphere and creating such an extraordinary uproar that the school was unable to hold classes as usual and was forced to let the students go and watch.

What a great hand-to-hand combat between science and superstition! [passage omitted]

So as pilgrims build temples, which in turn create even more pilgrims, the burning of incense at temples of all sizes has become increasingly rampant in recent years. At certain "extraordinarily spiritual" temples in particular, there are even larger crowds of fervent pilgrims. In the celebrated and picturesque city of Hangzhou, religious activities have reached a peak of fanaticism. Spring is Hangzhou's peak season for both tourism and incense

burning. As far as 50 miles away from Hangzhou, one can see pilgrims from all areas, each carrying a yellow cloth incense bag and thronging toward West Lake. The number of people burning incense and worshipping Buddha in front of the main hall of the Lingyin Temple can reach 300 to 400 per hour. As the front of this main hall has only six altars at which people can kneel to worship, people can get a turn only after waiting in lines three and four deep. In addition to the many elderly men and women, large numbers of the incense burners and Buddha worshippers are also immaculately dressed youths, and some are even children who are just learning to talk and PLA [People's Liberation Army] soldiers in uniform. However, it seems that the most magnificent and spectacular incense burning still occurs on New Year's Eve. In Hangzhou, burning incense at the Lingyin Temple during the 30 evenings of the last month of the lunar year is a reserved program for many people in celebrating the New Year and some have estimated that 100,000 pilgrims went there to do so on New Year's Eve 1990. In addition, Hangzhou Municipal Control Office statistics for the last 10 days of January to the first 10 days of April 1991, show that the number of pilgrims on Tianlan Road reached 250,000, and the number of pilgrims at Lingyin and Taoguang temples (including some tourists) reached 13.14 million.

As things are such in Hangzhou, people in other places are not to be outdone. Some perform "Taoist or Buddhist rites" for their dead, those who fall ill call in witches and sorcerers, and some housebuilders practice "geomancy." Older people worship Buddha when they are worried or ill, and younger ones burn incense for good luck and to get rich. "If you want to get rich, you have to worship the bodhisattva," has become an article of faith for some people. The Sanyuan Temple on Yingyuan Road in Guangzhou has attracted the most worshippers and an endless stream of pilgrims in recent years. Devout men and women worship incessantly there in front of statues of the Sanyuan god, Lao-tzu, ancestor Lu, and Nun Bao, some praying in silence with folded hands, others muttering incantations, and yet others supplicating the presence of the spirits with clam shells or coins. Statistics for recent years show that an average of over 1,200 people a day visit this temple, 7,000 to 8,000 a day on the 1st and 15th of each lunar month and over 60,000 on record days. The places in which superstitious activities occur are not limited to temples and convents, as wisps of burning incense and floating scraps of ash from burned paper money can be seen frequently even in streets, lanes, nooks, and crannies. Some even install bodhisattvas in their homes, so that they can worship at any time. [passage omitted]

It has not taken long for the "four olds" (old ideas, culture, customs, and habits) in the form of sorcerers, witches, and geomancers to return to our midst. They are no longer furtive, in hiding, or in constant fear of being "cracked down on." It is common today in train stations, on piers, and in streets and lanes in many areas to see groups of fortune-telling booths, where everything from

physiognomy to fortune telling, casting lots, divination by the eight diagrams, and glyptic worship occurs. Even the computer, the scientific pride of the 20th century, has become a tool of superstition, as signs saying "accurate fortune-telling by computer" are very conspicuous. I ran into a "fortune-teller" in a park on the Zhejiang coast, who used to be satisfied with his easy job as an electrician at a local factory but had quit to set up a fortune-telling booth because he had become dissatisfied with his monthly salary of only a little over 100 yuan a month. Even though he had simply bought a few fortune-telling books from which he was concocting and selling fortunes as he went, his business was certainly very "brisk." He said that it was a cinch to make 20 yuan a day in just two hours of sitting in the park and that he could make from 200 to 300 yuan a day when people had to line up to have their fortunes told on New Year's Day or other holidays. Moreover, he told me that his regular customers also gave him unexpected tips when they heard that their fortunes would be particularly good.

The lure of money has induced many sorcerers and witches, who had long since stopped but never actually reformed, to take up their old trades again. Some, who have seen the profits to be made, have become a new generation of "superstition specialists."

A certain slippery-tongued sorcerer Li in Shaoxing hoodwinks many people who come in an endless stream from morning to night to ask his immortal advice. While he used to be poverty-stricken, frustrated, and penniless, he has now built a three-story house in the county seat, which is equipped with everything from a color TV to a refrigerator, and has become a "10,000 yuan believer" who is known far and wide.

It is reported that a "fortune-telling street" on West Chengbian Street and a "fortune-telling market" on Shudao Avenue have appeared across from the Sichuan library in Chengdu, where dozens of fortune-tellers congregate every day. Its patrons include 22 percent with less than junior high school educations, 55 percent who are high school graduates, and 25 percent with college degrees. Also, a "fortune-telling gang," which scurries about telling fortunes and whose activities have expanded into all major prosperous areas in the city, has appeared in Shenyang. It has several hundred members and clearly engages in gang-type activities, such as dividing up turf, enforcing uniform prices, and setting up fixed sites. [passage omitted]

I wonder if the readers still remember the following incident that was prominently reported in Beijing newspapers, such as *PEOPLE'S DAILY* and *GUANGMING DAILY*, on 13 August 1980: A certain Xie Xianji in Zhijin County, Guizhou Province, so bewitched, instigated, and duped a commune cadre and a construction worker with tales of "going to heaven and becoming immortal," that 13 of the 15 members of their two families died after submitting to his swindling and deception. While this catastrophic murder case so shook people that many called for such a thing to never be

allowed to happen again, such incidents regrettably have certainly not disappeared and are still continuing to occur in one form or another.

In one of the first 10 days of June 1991, the family of Song Shiqian was preparing to offer sacrifices to the gods in the town of Dayang in the Songling District of the Greater Hinggan Mountain Range. Song Shiqian told his eldest daughter, Song Qulian, to bring out the "dragon mound" for him to sit on. When she refused, he boxed her ears, flew into a rage and beat his son-in-law and neighbor who had heard and had come to try to stop him. This squabbling and cursing angered the "great immortal"—Song Shiqian's wife, Liu Faxiang, who directed in a "holy" voice that "unless the old man was quickly tied up with a rope and throttled, he would not be satisfied until he had killed at least 200 people!" As such a "divine" decree could not be defied, the son, daughter, son-in-law, and two neighbors who were present swarmed around and tied up Song Shiqian tightly according to the instructions of "the great immortal Liu." The eldest daughter was still not satisfied and ordered that he be more tightly throttled and his hands be tied up until, before long, 51-year-old Song Shiqian had breathed his last. Liu Faxiang then ordered the eldest daughter to cut off her father's head and directed that "the corpse be quickly dragged out toward the southeast, the further the better." After throwing out the corpse, the whole family returned and actually feasted as if celebrating a victory.

At this feast, when Sun Zhengtian, the eldest son-in-law who had just returned from another part of China objected to the murder of his father-in-law, he was immediately accused by the whole family of having been sent back to kill them all. When Sun contested this, "the great immortal Liu" cried out for Sun to be beaten with pulley hooks and clubs by people, such as her son Song Weizhong, her eldest daughter Song Qulian, and two other daughters. Despite Sun's sharp cries of "help!" and his fleeing out the door, he was closely pursued and soon lay dead at his mother-in-law and wife's feet. As "the great immortal Liu's" hatred was still not slaked, she ordered her daughter to cut off Sun's head.

Of course, while none of these butchers, such as "the great immortal Liu," escaped the punishment that they so deserved, it certainly causes grief and indignation and gives much food for thought that such tragedies are still occurring in the 1990's.

Such cases are certainly not rare in Zhejiang Province either. A certain elderly Mr. Ye in a mountainous area of western Zhejiang called in a witch to "point out where he had gone astray" who told him that "his wife who had been murdered in 1979 was pining away for him and wanted him to go to the netherworld to see her." So the old man took the witch's words literally, returned home, found a rope, and hung himself.

Statistics, from the departments that are concerned with the use of superstition throughout Zhejiang to cheat

people out of their money and to murder them, show that 83 such cases were tried and 97 people were punished in 1990, and that 19 such cases, 46.2 percent more than in the same period in 1990, were tried in the first three months of 1991. [passage omitted]

This rampant wave of superstition has led to the emergence and rapid growth of markets for fetishes. In some places, almost all of the stores that deal in funeral and interment articles sell rough straw paper, tinfoil paper, and paper money to be burned as funeral offerings. Papermaking mills in many villages and small and mid-size cities have actually acquired great financial resources through producing paper "houses," "color TV's," "refrigerators," and "cars" for burnt offerings. The underground fetish market at the Lingyin temple in Hangzhou has also become very prosperous. The Hangzhou Municipal Control Office sent over 40 officers to crack down on this fetish market on 22 February 1990. On this one day alone, they confiscated illegal goods, including 4,133 sticks of incense, 228 yellow cloth bags, 2,714 pairs of red candles, 165 gold belts, 73 sheets of tinfoil paper, 460 bundles of incense, and 1,869 Buddhist necklaces. A superstitious mentality makes people who buy fetishes pay whatever price is asked without haggling. Old women in some villages are too tight to buy even popsicles when they go out to burn incense, yet are very liberal in buying incense and tinfoil paper without haggling. Thus, certain peddlars demand exorbitant prices, selling a dime's worth of incense for a dollar. Such high profits are also bringing ever-increasing prosperity to the fetish industry. [passage omitted]

In addition to impairing people's physical and mental health, a seemingly invisible impact of such rampant superstitious activity, which entails untold troubles, is that it gives rise to superstitious beliefs among our youth and children.

As some parents, who are blinded with superstition themselves, do everything they can to pass on their "magic weapons" to their descendants, they always take their children or grandchildren along with them to participate in burning incense to the Buddha. Even at ordinary times, they constantly inculcate their children with superstitious principles, which accumulate over a long period of time, nurture them in strong superstitions, and finally turn them into prisoners of superstition. Even more, parents certainly do not necessarily have a subjective desire for their children to believe in superstitions, yet their actions speak louder than their words, and their own superstitious activities have long since infected their children. A recent survey conducted by the Children's Palace of the China Welfare Society found that superstitious beliefs are spreading among a sizeable number of our youth and children. It found that as many as 60 percent of grade school pupils actually believe that "people's lives are determined by fate" and hope to "be blessed by the bodhisattva." Many of them are keen on having their fortunes told through cards and palm-reading, and some even waste money on computer fortune-telling by self-employed fortune-tellers. Some

hang figurines of the bodhisattva Guanyin around their necks at exam time, counting on her blessings to bring them better grades. Some students, who had good grades and were doing well in all areas, lose their enthusiasm for conscientious study, and their grades drop sharply after they learn from fortune-tellers that their fate is to go into business. This shows that superstition is increasingly competing with science and fiercely competing for the successors to our cause, and superstitious beliefs are having a profound influence on some youths. [passage omitted]

Superstitious activities have always been explicitly forbidden by our party and government. Our leaders at all levels have paid a lot of attention to curbing superstitious activities in recent years and have achieved considerable successes. As all of the above-mentioned criminal cases have been properly prosecuted, why then are superstitious activities resurging and seemingly unstoppable? While there are certainly many complex reasons for this, I think that the following ones must not be overlooked:

1. Our heavy historical burden: As everyone knows, China is a country with a long history. While bestowing the bounties of a long-standing and well-established culture on their descendants, our ancestors also left us with the particularly developed arts of geomancy and fortune-telling. Even though the "four olds" have been exposed and superstitions have been dealt several crushing blows since liberation, ideological problems have never been able to be dealt with effectively through mere administrative measures or outside force. Although these crackdowns have apparently done away with ancestral temples, sent the Bodhisattva running, and eliminated superstitious phenomena, many people have in fact simply changed from burning incense at temples to praying for the gods' blessings at home and in their hearts, and the bodhisattva has simply been moved from ancestral temples to dark corners of peasant homes. As these strong superstitious beliefs have certainly never been fully uprooted, they break out again whenever circumstances allow;

2. Our real world: In the final analysis, superstitions grow out of certain misunderstandings of natural and social phenomena. Although we have an immeasurably greater understanding of natural and social phenomena today than we did in primordial times, the human race is still far from having become the complete master of its fate. For instance, as far as agricultural production is concerned, we still have trouble withstanding many natural disasters, so we must still rely to a great extent on nature to keep us alive. Under such conditions, some will prostrate themselves in worship of the "gods" who decide their destiny. Moreover, various risks are increasing greatly along with the development of a commodity economy. On one hand, if one runs his business poorly, today's "10,000-yuan family" can become penniless tomorrow and, on the other, if one's luck is good, a pauper can become instantly rich with one winning

lottery ticket. Therefore, some hope that the bodhisattva's blessings will forever keep their boats from sinking beneath the waves of commodity economy risks. We are still far from having eradicated a real world such as this that engenders belief in superstitious phenomena;

3. Our wrong social control methods: We have long tried to suppress superstitious activities with political movements, relying mainly on coercive administrative measures and ideological and political indoctrination instead of careful and dependable education and vigorous legal measures. Except for the small number of superstitious activities that are counterrevolutionary or violate criminal laws against direct involvement or collusion in crimes which can be prosecuted by law, such as murder, assault, rape, and fraud, most of those who engage in superstitious occupations can only be "detained for 15 days or warned and fined less than 200 yuan either singly or collectively" according to the relevant provisions of the "ordinances on penalties for control of public security." These are seldom actually enforced, and so most fortunetellers are simply run off. In fact, as there are certainly not special departments charged with controlling superstitious activities, a laissez-faire approach is taken toward them.

Sociological Interpretation of VD, AIDS

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[Article by Chu Zhaorui (0328 0340 3843): "Sociological Countermeasures for the Prevention and Treatment of Sexually Transmitted Diseases"]

[Excerpts] [passage omitted] **I. Resurgence of Sexually Transmitted Diseases in China Cannot Be Ignored**

Syphilis, which was brought to China from Europe in the early 16th century, had already been wreaking havoc and running wild for almost 500 years by the mid-20th century. At an international symposium in Beijing in 1964, when Professor Hu Chuankui [5170 0278 2247], president of the Beijing Academy of Medicine and director of the Beijing Dermatology Institute, solemnly announced to the participating scientists from dozens of countries that after 15 years of hard work China had basically eliminated VD, they burst into applause. This news then caused a sensation throughout the world. In response to a question from a foreign reporter as to "whether VD existed in China," Premier Zhou replied with wit and humor, "Yes, but only in Taiwan!" We were very proud of this for a time.

Along with our opening up to the outside world and rapid expansion of tourism in the 1980's, "syphilis spirochetes" has made a comeback in China, and the "20th-century epidemic" of AIDS has followed in its wake, so that the prevalence of sexually transmitted disease [STD] in China today is quite grim, and its incidence has been growing at an alarming rate year after year. The number of cases of STD throughout China increased at a rate of 312 percent a year from 1982 to

1987, and from 1987 to 1989, our incidence of STD increased at an average rate of 71.34 percent and as high as 368.88 percent in some cities. Our ratio of male to female STD patients has dropped from 2.4:1 in 1987 to 1.7:1. This increase in female STD patients is creating a very great threat to our children and to future generations. From 20 to 30 percent of our STD patients were infected through casual contact, and unclean bedding, bathtubs, and toilets can all transmit STDs. By occupation, our incidence of STD is highest among self-employed workers, reaching 1,256 per 100,000, and our rate of STD among the "three service occupations" of taxi drivers, peddlers, and supply and marketers in some places is as high as 37.4 percent. However, our fastest STD growth rate in recent years has been among cadres and public employees in government offices, where it has averaged 290.3 percent a year. Our current STD trend is proliferation from urban and coastal areas to rural and inland ones.

We are facing such a grim situation. Ministry of Public Health statistics, which were publicly announced in February 1990, show that our number of STD patients had reached 204,077. While we have only 493 reported cases of people infected with the AIDS virus, our real number of such cases far exceeds the published figures, and the STD alarm has already sounded for mainland China! In light of current factors, such as China's huge population, our still undeveloped economy, our backward sex education, our high percentages of illiterate and semiliterate people, and the limited capabilities of our medical and health care services, the time has come when we have no option but to pay urgent attention to the prevention and treatment of STD. Any neglect of this would be as good as committing a crime against our descendants!

II. The Sociological Factors in the Resurgence of STD in China

[passage omitted] The springtime of our commodity economy has injected commodity relations factors into our human relations and brought a commercial nature to our sex relations. It is very easy for "poorer" women, who have low self-esteem, love ease, and hate work, or who have had too early sexual experiences, a poor sense of values, or too much sexual freedom, to regard their bodies as capital and act on the principle that "being a 7- or 8-grade worker does not pay as well as loose behavior," to use their bodies as a way to make money, and to wind up as prostitutes and STD carriers. Moreover, certain "nouveau riche" labor contractors, peddlars, supply and marketers, taxi drivers, and self-employed workers are "full of hot sexual desires." They join the army of "whoremongers" and contribute to the spread of STD. Of course, in the process of opening up to the outside world, some foreign businessmen and people from Hong Kong, Macao, and Taiwan, who come as tourists or businessmen to run enterprises and want to have a Western-style "nightlife," contribute to the spread of STD, AIDS in particular, and even more so to that of typical "foreign goods."

Another key sociological factor in the spread of STD is the sharp increase in our population mobility. From a sociological perspective, while population mobility naturally contributes to economic prosperity, cultural development, and urban upgrading, too much unchecked population mobility may cause problems in another area. That is, when large numbers of men leave their native places and homes to stay for a year or so in strange surroundings, they are apt to become "sex-starved." When released normal sexual desire encounters "absolute poverty," some weak-willed men are very likely to patronize prostitutes. In the words of the philosopher Bertrand Russell, "It is impossible to expect sailors just ashore from long stays at sea ... to wait patiently to be approached by women with whom they can fall in love." As what they will most likely find will be diseased "streetwalkers" or unspeakably filthy "streetside stalls," STD will spread along with their mobility. It is also worth noting that most of the personnel recruited by the flourishing electronics, clothing, hotel, and tourist industries in our SEZs [Special Economic Zone], which have been opened up to the outside world, are young women. A survey of the Shekou District in Shenzhen found that the ratio between "working women" and "working men" was actually seven to one. As these young women are contract workers, many of whose registered permanent residences are certainly not local, there are obstacles to their falling in love and getting married. The existence of this army of young women with no proper sexual outlets must be seen as a broad invitation to the widespread transmission of STD.

The influences of foreign cultures and clash of Western ideologies have brought enormous changes to the thinking of many of our youth, which are necessarily reflected in love, marriage, family, and sex problems. As some, who have not yet had enough time to conscientiously clarify their positions on the old concepts of sexual love and morality, but have been violently subjected to the clash of concepts on sexual love and morality coming from all areas and have swallowed whole a series of Western theories on the "sexual revolution," "sexual freedom," and "sexual liberation," the rate of premarital sex is actually higher than 70 percent in some of our large cities. While "third parties" are involved in 25 percent of the divorce cases throughout the world, they are involved in as many as 70-80 percent of them in some of our open coastal cities. Our national divorce rate is higher than 1 percent, which means that more than 500,000 couples a year get divorced. As many as 14.41 percent of our urban women have had extramarital affairs, and about 90 percent of our teenage female criminals are sex offenders. Factors, such as the leniency of our laws, our declining morality, and our changing concepts, plus the more frequent contacts between men and women and the impact of mass media decadence, in addition to the quicker dissolution of marital relations due to the faster pace of life under a commodity economy, have all brought our sexual relations more out into the open, given us a more tolerant

attitude toward sexual offenses, and thus, added fuel to the flames of the transmission of STD.

III. The Sociological Characteristics of STD in China Today

[passage omitted] 1. Younger patients: While most of our VD patients during the initial post-liberation period were middle-aged and elderly long-term patients, most of them today are middle-aged and young, with 70 percent of them being young people between the ages of 20 and 30. Moreover, most, or 45 percent, are single; 42 percent are married; and 3 percent are divorced.

2. Earlier-stage STD: While most of our VD used to surface as advanced-stage syphilis, most patients now have contracted it recently, and it surfaces mostly as early-stage gonorrhea and syphilis. Gonorrhea accounts for a little over 40,000, or 94.3 percent, of the over 50,000 STD cases throughout China.

3. Patients from wider walks of life: While most of our VD patients used to be rich and influential patronizers of prostitutes, dandies, or low-income laborers who could not afford to marry, most of them now have regular jobs and come from all walks of life. For instance, an occupational survey by concerned departments of 337 STD patients in Urumqi in 1988, found that 28.2 percent were self-employed workers, 11.6 percent were taxi drivers, 3.8 percent were cooks or kitchen staff, 2.32 percent were construction workers, and 20.5 percent were other types of staff members and workers. It found that 3 percent were peasants, 2.7 percent were teachers, 1.8 percent were students, 1.2 percent were bailiffs, 5 percent were tax collectors, and 8.6 percent were cadres, with the highest rank being at the department and bureau level. Nationwide, 62 percent of STD patients are employed staff members and workers, 20 percent have moved from rural areas to cities, and 18 percent are sex offenders and prostitutes in prison.

4. Higher incidence: Reported figures from Urumqi hospitals alone show that STD has been "skyrocketing" year after year, with 172 cases in 1986, 261 in 1987, and 378 in 1988. As to the age breakdown, STD ranges from 80-year-old men to 4-month-old infants, and even includes many 6- and 7-year-old girls!

5. More infection through homosexuality: While pre-liberation VD patients were infected equally through heterosexual and homosexual relations, Western influences are constantly increasing the incidence of abnormal sexual desires. Homosexuality, particularly among males, is increasing steadily, and some STD patients have become infected through homosexual relations. Statistics from concerned departments in Wuhan show that 12 of 86 syphilis patients contracted it through homosexuality.

6. A more diverse pathogenesis: Prostitution is the major source of STD transmission. While most pre-liberation prostitutes were from the lower classes and so were forced into prostitution as a public livelihood, most

prostitutes today are seeking material ease and pursuing decadent and parasitic lifestyles. Many have good educations; most specialize in foreign customers, and it is not rare for others to have regular jobs but prostitute themselves because they love ease and hate work. Moreover, all prostitutes are unlicensed, and most operate in their spare time. Statistics from several Shanghai reform-through-education units show that 79 percent had regular jobs. Moreover, as some prostitutes have high social status, including even a few who are college students, graduate students, performers, and office workers, STD carriers have become more diverse.

7. More cross-transmission: While STD patients used to be a relatively stable population, they are now often members of gangs from other parts of the country. For instance, 69 percent of the prostitutes in Guangzhou are from other parts of China. In some cities, STD-infected prostitutes often act in collusion with hotel attendants and taxi drivers to form "coordinated" "sex services." Some unlicensed prostitutes turn "retail" business into "wholesale" business. That is, while hiring themselves out to a foreign businessman or self-employed worker for a particular period of time, they still solicit other business when "their client is away from the nest." These mostly STD-infected prostitutes transmit the viruses to their clients with whom they have sexual relations, who then "snowball" the transmission by returning home and cross-transmitting them to their wives.

8. More treatment difficulties: When we concentrated our efforts on reforming prostitutes during the early post-liberation period, overcame our shortage of medicine, and even contributed PLA [People's Liberation Army] penicillin with which to help cure them, many prostitutes said tearfully that "while the old society dehumanized us, the new one has given us back our humanity." Now it is very difficult to even inquire about case histories. Many patients have lost their faith in doctors, are afraid that their units will learn of their "shameful diseases," and are unwilling to inform doctors about their unclean sexual histories or partners. As many outpatients give false names and addresses, there is even less way to know where to begin in tracking down and treating or expanding treatment of STD carriers. China has discovered one AIDS-infected foreigner who had sex with 16 Chinese women, none of whom have yet been examined. While it was easy to reform those who had been forced into prostitution, most of today's prostitutes are acting on their own free will. As most of them are acting out of love of ease, hate for work, and pleasure-seeking motives, they think that their "gold-rush dreams" have been destroyed when they are arrested, treated, and reformed forcibly, which could truly be called "refusing to mend one's ways despite repeated admonitions." Of course, there are also shortages of other things, such as money, medicines, and hospital beds. And STD prevention and cure difficulties exist in other sociological areas, such as excessive fear and apathy, as well as discrimination against convalescents.

IV. Sociological Countermeasures for the Prevention and Treatment of STD

[passage omitted] 1. We should enhance our sex education. We conducted a recent survey on "the family and sexual civilization," which involved 24 cities and counties throughout China. The 20,000 questionnaires that we received as feedback showed that teenagers are generally reaching physiological sexual maturity earlier and that there is more diversity in their sexual psychology. The random sampling of 100 senior high school coeds in Nanjing found that 80 percent desired heterosexual contact, 50 percent had boyfriends, and 10 percent had lovers. The sexual knowledge that they most urgently wanted to know was "rituals and styles of heterosexual contact." As many as 14 percent of them did not know where fetuses grow, 36 percent did not know from where babies are born, 16 percent of them had had no sex education, and 46 percent of them did not know that gonorrhea is VD. Such young girls are not only very likely to lose their virginity when confronted with sexual temptation but also have almost no knowledge of contraception. The Shanghai survey showed that about 25 percent of Shanghaians were single in 1987, and over 200 of 1,000 temporary female workers in Guangdong's Shekou Industrial Zone had had unmarried pregnancies in 1984, which figure had increased sharply to over 800 by 1987! This shows the extreme importance of enhanced sex education for teenagers! [passage omitted]

2. We should improve the quality of our sex lives. Most married male STD patients do not have their sexual desires satisfied at home, which is related to incompatible marital sex lives and is a key cause of extramarital love, adultery, and patronization of prostitutes. Our sociological survey showed that 44.19 percent of married couples had sex less than three times a month, and 40.45 percent of them had sex of only one style. Actually as many as 30.7 percent of wives were unable or too embarrassed to take the initiative, 5.24 percent had never felt pleasure during sex, 58.29 percent felt pleasure only occasionally, and 44.74 percent experienced lower-body pain during sex either regularly or occasionally. As many as 47.17 percent of Chinese couples sleep in the same room with their children, and 70.60 percent of their bedrooms are not soundproof, which shows the poor quality of their sex lives. As prostitutes are more skilled sexually, they appeal to certain weak-willed clients, which leads to the spread of STD. [passage omitted]

3. We should advocate sexual civilization. So-called sexual civilization refers to observing the sociologically accepted norms of behavior in the areas of sexual concepts and behavior. [passage omitted]

4. We should promote a healthy courtship culture. [passage omitted] There is an old Chinese saying that "It is our eating and sexual habits that distinguish us as human beings." A survey has found 112 STD patients, 75 percent of whom are between the ages of 20 and 40, among 5,035 taxi drivers in a certain city. Men in this age group are at the peak of their sexual desire. As they

are often far away from their wives and girlfriends, they are very likely to waste their energy on prostitutes if the places in which they work do not provide rich and varied cultural activities. Sociological surveys also show that there are about 9.9 million single males over the age of 30 in China. Interpolating from the ratio of male to female births in China's rural areas in 1989 of 118:100, it will be very hard for 24 of 100 Chinese men to find wives, and China will have 50 million bachelors by the year 2000. How to deal with the sexual hunger of these men will be a weighty social problem. Moreover, as long as some of them are a little less than law-abiding, prostitution will increase steadily, and it will be unrealistic to even think about stamping out STD. Thus, we must eliminate pornography on one hand, while promoting a healthy courtship culture on the other. A

healthy and scientific courtship culture, including things, such as novels about love, love films and TV movies, nude art, friendship dances, fashion shows, popular songs, beauty contests, group tourism, and popularization of scientific sexual knowledge, will have a positive sexual impact. [passage omitted]

5. We should study the science of sexuality. The taboos against the science of sexuality have begun to be broken down in China. Even though there are still misunderstandings and obstacles, the ice has been broken and the road ahead is open. Since the mid-1980's, medical or physiological sexuality, psychological sexuality, and sociological sexuality have been part of our research agenda in China. [passage omitted]

Reliability of KMT-Style Polls Questioned

92CM0069A *Taipei TZULI WANPAO* in Chinese
6 Oct 91 p 17

[Article by Huang Lien (7806 6647), (businessman): "Public Opinion Polls' Perfect Foresight"]

[Text] The taking of public opinion polls as a business has been recognized as a "service trade" in Taiwan. Sometimes, on the same issue, poll A may show over 80 percent support while poll B shows only around 50 percent support. This discrepancy can only be explained by the adage, "everyone can pull a trick, and no two tricks are ever the same." So long as the client is happy, it is guaranteed that even a sparrow can be turned into a phoenix.

One thing about these amazing polls and what is so curious about them is that when it comes to political issues, they are no longer just a service but have gone a step further to team up with TV and other broadcast media and for-hire scholars—which no doubt can be called a diamond-studded cast; whoever controls the polls has victory in his hands in the battleground of power struggle.

Looking at the current politically oriented public opinion polls, the strategies can be summed into the following:

1. Senior government officials who are supported by a poll-taking organization have opinion polls taken regularly, every six months. The results always show 80-90 percent approval rate for their administrative ability.
2. If a senior government official who is supported by a poll-taking organization makes a clear policy blunder (such as the Diaoyutai incident when we were driven out by the Japanese or the political indecision over the matter of the Kind-Heart Bonds) and is subsequently criticized strongly by some scholars and the media, clearly tarnishing that official's reputation, a poll will be taken—the result always shows 60 percent. (Once in a while, for the sake of credibility, the number may start at 59 percent—for example, one time they asked, do you agree with the statement of President Hau of the Legislative Yuan that we will not be admitted to the United Nations no matter under what name? The answer turned out to be exactly 59 percent to 70 percent support for his policy.)
3. If a senior government official who is supported by a poll-taking organization has said or done something that is disrespectful of the system or that violates democratic laws and regulations (such as the resignation from the Legislative Yuan) and is consequently criticized by the scholars and the media and suffers a drop in popularity or is at risk of being toppled, a public opinion poll will be taken—always showing 60 to 65 percent support for that official's conduct.
4. Whenever those ideologies most opposed by the pollsters (such as Taiwan independence) show signs of

getting more public support (for example, encouraged by the recent independence of the various Soviet republics and the three Baltic states, more and more Taiwanese are supporting the independence movement,) an opinion poll will be taken—inevitably showing only 5-15 percent public support for Taiwanese independence. Conversely, the public is still fearful and skeptical about unification with China; unification polls which the pollsters heartily support will not be taken regularly, but the results still always show 40-50 percent in favor of future unification (once or twice, the result will show 51 percent support to indicate that more than half of the people are in favor of unification).

5. Just before an election, a poll will be taken of candidates supported by an opinion poll organization (like the one taken of the KMT candidate in the last mayor's election in Beixian County), and the result always shows 60-70 percent support for those candidates.

6. To hide the biases in the polls they take, the opinion poll organizations will put up a smoke screen once in a while. They will take opinion polls on some nonpolitical issues that have nothing to do with power struggle (such as the citizens' attitudes toward sex or traffic issues). The results are indeed true reflections of public opinion. These polls are not only objective and meet the strict standards of public opinion polls, but the data are very accurate, too. The purpose is to lead the people into believing the results of the political opinion polls and make them accept those confrontational and misleading polls to be the truth.

Using opinion polls as a tool can achieve the following goals:

1. One can make use of the polls to shore up one's political power.
2. One can make use of the polls to engage in political struggle and eliminate one's enemies.
3. One can make use of the polls to mislead public opinion so that one can correct an erroneous policy-decision.
4. One can make use of the polls to distort the truth and discourage the reformers and the seekers of righteousness so that eventually they have to back down.
5. One can make use of the polls to protect the vested interests that one has monopolized.

The above analysis is based on statistic theories using data gathered in various opinion polls over the last two to three years and by studying the background against which the polls were taken. On this basis, we can find out which opinion poll organizations employed by the various foundations and newspapers had amazing perfect foresight in the recent polls.

Pitfalls of Political Office for Successful Businessmen

92CM0006A *Taipei HSIN HSIN WEN [THE JOURNALIST]* in Chinese No 232, 25 Aug 91 pp 51-53

[Article by Chou Ts'ui-ju (0719 5050 1172): "Political Seas Fraught With Dangers; Merchantmen May Float or Sink; A Story About 'Election to Office Following Success in Business'"]

[Text] Among the vast crowd of legislators today, a substantial number are also the owners of businesses. This group of representatives of the popular will who became "officials" following success in business generally face in both directions, pleasing both the "business world" and the "political world." However, there are some drawbacks, and sometimes they may also easily lose both domains. Incumbent industrial legislator Hsieh Lai-fa [6200 0171 4099] is a living example of those businessmen who have gone into government and who bear an intolerable burden.

Hsieh Lai-fa, who went from being chairman of Ch'ye Electronics to industrial legislator, created Ch'ye Electronics through illustrious pioneering achievements as a young man, and his straight-shooting personal style while he was an industrial legislator also earned him praise. However, Hsieh, who was unable to attend to everything simultaneously and whose attention was damagingly divided, began to neglect his business. Finally a "red light" went on in his business, and in succession, his disappointment in the "business world" also brought a shortening of his political life.

This situation was just as the richly experienced chairman Chang Kuo-an [1728 0948 1344] said: "When one has one's two feet in different boats, it is easy for both feet to slip into a void." Chang Kuo-an said that when a single person holds two jobs, he must not be of crucial importance in the operation of a business; otherwise, not only can he not gain advantage from either side, but when faced with a situation in which he is unable to give simultaneous attention to business "gain and loss relationships," he will ruin his own enterprise. It was for this reason that Chang Kuo-an never dared have the idea of "taking part in government."

Nevertheless, among people in industrial enterprises who take part in government, there are also quite a few examples of those who can keep themselves intact or who even thrive in both roles. One example was the chairman of the board of Far East Machinery, Chuang Kuo-ch'in [8369 0948 2953]. Although he simultaneously served as legislator from Chia-i, since he devoted most of his energies to his business, it continued to thrive. Meanwhile, even though his work as a legislator produced little and seemed mediocre, at least his image was not blemished. Lin K'un-chung [2651 0981 6988], the chairman of the board of Sino-Japanese Livestock Feed and of Ta-Han Engineering was a reverse example. In the very year that Lin K'un-chung received orders from the Kuomintang headquarters to run for election,

while he was serving as a legislator, his Sino-Japanese Livestock Feed Company began to fail. Faced with a situation in which he could not devote himself fully to both business and government, Lin K'un-chung decided to put the brakes on politics and not run for another term as legislator. Another kind of legislator is an official who made a success in business and who is also the sort in which the businessman and the legislator roles complement each other. He is just the reverse of the aforementioned examples. Businessman legislator Chang P'ing-chao [1728 1627 3113], who owed his success to a storage business in Taichung, is such a person. After his election as legislator, his business gradually prospered as well. During the short space of two years in office, his business expanded to include two securities companies, two new banks, and a construction business. One might consider him a new legislator adept at using his political and business contacts to manage money matters. Another example is Shen Shih-hsiung [3088 0013 7160], whose business prospered even more after he took part in government, extending to insurance and banking.

Legislator Wu Te-mei [0702 1795 5019] is an even greater standout among this kind of businessman-legislator. After entering the political forum, Wu Te-mei, who began with an enterprise that was not very strong, applied his strong ability as a legislator to obtain loans, borrowing a large sum from the Bank of Communications to go into business with an Australian steel mill. Next, he sold this steel plant at a profit. Thus, he used the bank's money and resold the steel mill, strengthening his own enterprise in the process. The steel mill he originally owned grew larger and larger. This type of legislator may be considered an entrepreneur who skirts the fringes of business and government.

Yet another type of businessman who takes part in government is the one whose business is already stable and in addition has a father or a brother who can take charge of the business. Thus, the business itself becomes a "backstop" for the legislator's status. When Wang Chih-hsiung [3769 1807 7160] and Wang Shih-hsiung [3769 0013 7160], the two sons of Wang Yuyun [3769 3768 0061] of Nanpat'ien near Kaohsiung went into government, this had no effect whatsoever on their own businesses. On the contrary, it helped their business groups develop. The most recent permission to establish the Chung Hsing Bank, which Wang Yu-yun set up, testifies to this. Legislator Wang Shih-hsiung also acknowledged that because of the patrimony of the family business, he had fewer financial woes and was thus able to make an all-out political push. Wang Shih-hsiung said that if a business is already on track, has a firm framework, and its management body is a group, if one or two people should leave, the effect on the business would not be too great. These words happen to provide a background for the business combine's success in taking part in government.

Another notable example is Wang Ling-lien [3769 0109 7792] who used his status in a conglomerate to go into government. Since numerous hands were available to

take over the conglomerate that Wang led, no problem occurred in the assignment of manpower. In taking a position as legislator, Wang Ling-lien in advance arranged a division of authority with his brothers, turning business management authority over to his elder brothers. He, himself, assumed a position as assistant manager. This position had comparatively little real executive authority for the conglomerate's housing and for Chia Hsin Cement for which he was formerly responsible. Thus, he removed himself from the business risks for which he had been responsible. Wang Ling-lien said that sometimes risks are greater in the business world than in the political world. Changes can occur in a very short time. If one's attention is divided between two jobs, problems may very easily occur. Nevertheless, Wang Ling-lien also did not deny that backing from a strong financial group enabled him to assume responsibility for an annual NT\$20 million in expenses for assistants. This type of businessman who goes into government may be classed as one who only benefits and incurs no damage.

Yet another type of legislator is the one whose business was very small to begin with. Once elected as a legislator, however, because many civilian businesses like to have a representative of the people's will as a chairman of the board to enhance their firm's prestige, very many businessmen who have gone into government, as well as old legislators, frequently become the "head" of these enterprises. Frequently, they can obtain 10 percent of the company's stock while paying for only 5 percent, or they may even receive shares for what is termed expenses at no cost to themselves. This situation applies mostly to old members of the Legislative Yuan. Examples include Chang Shih-liang [1728 0013 5328], the vice-president of Haneda Motors, and Shen Shih-hsiung, deputy chairman of the board of Hua Hsing Iron and Steel, both of whom are examples of legislators who took up positions in businesses. Formerly when problems arose in his investment corporation, the son of legislator Chin Yang-hao [6855 7402 3185], asked Chin to become the head of the corporation with the title of chairman of the board.

Yet another type of businessman who goes into government is the one who gets elected legislator for the purpose of remedying problems in the business, or should the business have to take on more debt to repay debt, it may rely on the legislator's status to continue to obtain preferential loans and bank credit. Such a businessman has no choice but to take up the role of a businessman in government. Some years ago, Shi Hsin Corporation ran into problems, and Ts'ai Chen-chou [5591 6591 3166] counted on his election as legislator to solve the crisis. However, the truth could not be concealed, and the more that was disclosed, the worse the situation became, so that even legislator status offered no protection. As a result, the Shi Hsin incident exploded while Ts'ai Chen-chou was serving as legislator. Another similar example occurred 100 years ago when the boss of the Fortune Hotel, Liu Ch'eng-i [0491 2052 2034], scurried to run for election as legislator once

a crisis occurred in the business, hoping thereby to restore vitality to his business. Because he failed to be elected legislator and subsequently had to pay out even more money, he absconded abroad. Such a situation is just as legislator Lin Yu-hsiang [2651 6877 4382] says: Reliance on political power to protect an enterprise is basically a poor way of doing things. Thinking one can make a new start, one only sinks deeper and deeper.

In addition, while they are serving as legislators, very many businessmen who have gone into government use their privileged loans to repay debts since they fear that once out of office, banks and creditors may dun them. Thus, they have no choice but to take the road of not turning from service in government. These representatives of the people's will may enjoy wide prestige as members of the Legislative Yuan, but everyone knows about their vicissitudes. A large number of take a nap in provincial guilds, and some legislators frequently become frustrated with putting pressure on banks for loans outside of regular office hours. During breaks in meetings of the Legislative Yuan, the most frequent topic of conversation among businessmen who have gone into government is usually "how can money be made?" This shows the degree of financial hardship of the representatives of the people's will. Reportedly, the word among the representatives of the popular will at all levels nowadays is that "once they lose an election, they are prepared to go bankrupt."

"If you want to see a person's business fail, urge him to run for election." These words from legislator Wang Chih-hsiung reveal the current predicament of businessmen who go into government. Reportedly, very many businessmen in Taiwan who have been elected legislator have lost the family fortune or accumulated large debts. An example is the very wealthy Huang T'ien-sheng [7806 1131 3932] who once owned a large tract of land at Houchin north of Kaohsiung. Subsequently, while running for legislator, he sold a parcel of land each time he ran. By now the tract of land he once owned has been virtually all sold, and even his ancestral property is about to be all sold. Legislator Wang Chin-p'ing [3769 6855 1627] also faced a crisis for a time as a result of taking part in government, and he still owes quite a few people money in the Kangshan area. The setbacks in business that Huang Chao-fu [7806 2507 1133], chairman of the board of Huach'i Shoe Enterprises, experienced previously were also largely attributable to the dragging down of his wealth which resulted from his running for election. This shows that the life of a "businessman in government" is actually also one of "skating on thin ice."

It is because of the high risks in the political world, in which one's ship may float or capsize, that even Wang Yuyun, who has plentiful experience in taking part in government, took a rather conservative opposing view when his sons wanted to become legislators. Even in the case of the prestigious conglomerate of Hsin Kuang Enterprises, although the Kuomintang has consistently called upon the brothers in the Wu family to run for

election, Hsin Kuang has concentrated on business and has hesitated repeatedly. The well-funded Tainan Clique has even more consistently emphasized business, never entering the political arena and demonstrating that a dual political and commercial role is a high risk venture.

A review of the history of the participation of businessmen in government in Taiwan shows numerous cases of many vicissitudes. In some cases the business was dragged down and in others both political and commercial activities suffered. Unless one goes into government with strong backing, the road of an official who has been outstanding in business remains one that not every one really can take.

Editorial on Independence Clause, Investor Confidence

92CE0123A *Taipei LIEN-HO PAO* in Chinese
20 Oct 91 p 2

[Editorial: "The Link Between the Taiwan Independence Clause and Investor Confidence"]

[Text] The Democratic Progressive Party's use of an annex to sneak the Taiwan independence clause into its party platform has created a violent reaction. Resulting anxiety over political stability has led to a decline in investor confidence because people are worried the economic future is headed for ruin. Perhaps this view has yet to be confirmed by the facts. However, an understanding of investor confidence and an analysis of its possible effects not only would be helpful for probing the economic effect of the Taiwan independence clause, it would also be helpful to executive departments as a basis for adopting suitable responses.

During the past 30 years, political factors have led to a decline in the confidence of domestic investors on two occasions—withdrawal from the United Nations and the break in relations with the United States. These two political crises very clearly affected domestic real estate prices. Because real estate represented important non-governmental assets which were relatively illiquid, its big price drop shook the political confidence of the private sector and lower investor confidence naturally followed as a result. Even though the previous two political crises caused real estate prices to drop, the extent of the second blow was far less than the first. It was not that the political effect of the second was less than the first. It was instead that the people had accumulated wealth and were themselves relatively better able to withstand it. Some who fled wanted to keep a base in Taiwan. As a result, this increased the strength of the latter to carry on. The effect of the political factors on the price of real estate and investor confidence was delayed. Consequently, even though the domestic price of real estate is at present still holding firm, this does not prove one way or the other whether the independence clause will affect investor confidence. We need some time before it might happen. This is why the reaction of the executive departments becomes a very important factor.

What the executive departments need to consider most is the effect their response might have on the social crisis. Since political factors themselves are not directly affecting investor confidence, it could be indirectly affected to the extent that the social situation is affected. Strictly speaking, the country has never had a similar experience in the past. We will have to rely on our wisdom to decide the problems we are now facing. Irrespective of whether the particulars of political principles are implemented with severity or moderation, as long as they are implemented appropriately, domestic investor confidence will not be affected.

Furthermore, given the current situation, Taiwan's social crisis should not be considered an internal variable. The reaction from the other shore cannot be ignored. The worse that could happen is for the Chinese Communists to use the Taiwan independence clause as a pretext to carry out an armed attack, forcing our country's economy onto a wartime footing. It goes without saying that investor confidence among the populace would come to a complete halt. Based on our studies of current data, the reason this worse-case scenario still has not occurred is because Chinese Communists have taken into consideration the economic effect of reduced trade relations between the two shores. Everyone knows that in the past few years, simultaneous with the tendency of Taiwan firms to go slow with large-scale foreign investments and with the growth of exports, mainland investments by Taiwan businesses have grown significantly and the proportion of Taiwan exports to the mainland has increased markedly. This shows that our country's dependence on the mainland for foreign trade has greatly increased. Whether a reduction in Chinese Communist economic relations with Taiwan would have major harmful effects on our economy deserves careful discussion. For the sake of convenience, we have focused on the following two views.

First, according to the principles of the international division of labor, Taiwan's economy has developed to a higher degree than the mainland has. In addition, we have to consider cultural factors, the fact that the hostile feelings of the two sides have abated, and that it has become more and more common for Taiwan businessmen to invest in the mainland. This will result in an expansion of Taiwan's exports to the mainland and a more favorable balance of trade. Nevertheless, this does not mean that the increase in Taiwan's reliance on trade with the mainland has been unilateral. It has been a bilateral increase in mutual reliance. The major portion of Taiwan business investment in the mainland has been in labor-intensive industries involved in the manufacture of export products. The growth of this type of investment has enabled the mainland to enjoy increased employment opportunities and the benefits of increased exports. The situation is similar to that in the 1960's when Japanese businessmen were investing in Taiwan. Consequently, if the Chinese Communists were to cut back on trade ties with Taiwan, they would have to pay a relatively heavy price in economic trade before there

would be any punitive effect on Taiwan's economy. It remains to be seen whether it would be worth it.

Second, at least up to now, it has been an uncontested fact that the private sector in Taiwan has a relatively large surplus of capital. The growth of foreign investment is still likely to continue for a period of time. If the Chinese Communists were to restrict investments by Taiwan businessmen, the availability of alternative investment areas and the differing economic effects that might occur are worth considering. The countries of Southeast Asia all have plans to develop their economies and offer possible alternative investment areas for Taiwan. However, their resource mix is far different from that of the Chinese Communists and they could not totally replace them. This would produce varying economic effects. Therefore, even though there are possible alternative areas for foreign investment, they would have certain negative effects on Taiwan's economy.

To sum up, the economic effects of the Taiwan independence clause will be manifested through investor confidence, and changes in investor confidence and foreign investment hinge on the government's reaction and the reaction from the opposite shore. The government must act on this in an appropriate and prudent manner.

Commentary on Economic Recovery, Polling Technique

92CE0123B Taipei CHING-CHI JIH-PAO in Chinese
29 Oct 91 p 2

[By Wu (illegible given name), concurrent research fellow and department head at the Taiwan Economic Research Institute: "How Strong Is Taiwan's Present Economic Cycle? Commentary on Gallop Poll Results"]

[Text] In light of previous experience, Taiwan's economic cycles average about five years. It takes about three and a half years to go from the low point, through recovery and prosperity, to reach the high point and about one and a half years from the high point, through recession and slump, to the low point. The last wave of the economic cycle reached its low point during the third quarter of 1990 and in the fourth quarter gradually headed toward recovery. We have been in recovery for less than a year now. Advancing from the ravine (the low point) to the pinnacle (the high point) is like driving up A-li Shan. We are now using the power of low gear to move up the mountain and immediately after will shift into second to continue our advance.

Our domestic economy has done better this year than other industrialized nations. For example the U.S. economy is more or less expected to do poorly, with an anticipated 0.2 percent negative economic growth rate for 1991. Likewise, Japan's economic growth rate is barely 3.5 percent, a reduction compared with the high growth rate demonstrated in 1990. Consequently, in September industrialized nations, including the United States and Japan, have each taken measures to encourage prosperity such as lowering their rediscount rates in the hope that their economies would

improve. By contrast, during the first and second quarters of 1991, Taiwan's economy grew 6.2 percent and 7.1 percent, respectively. This was 1 and 2 percentage points higher than the 5 percent increase for all of 1990. In looking at foreign trade, we see that from January to September exports grew 14 percent compared with the same period in 1990 and imports grew 16.4 percent, giving a trade surplus of \$9.6 billion. It is estimated the trade surplus for the entire year will be \$12-13 billion.

The annual rate of increase for the industrial production index from January to September was 6.7 percent compared with the same period in 1990. The manufacturing sector index climbed to 6.6 percent, which was not far behind the economic growth rate. With no difference between production and marketing, the economic growth rate for all of 1991 could reach about 6.8 percent. If the global economy recovers next year, the IMF estimates that world economic growth will increase from 1.1 percent in 1991 to 2.8 percent in 1992. Influenced by international economic recovery, Taiwan's economic growth in 1992 could probably sustain its intermediate growth level of 7 percent. A Gallup Poll of 2,017 persons was conducted in Taiwan from 27-29 September 1991. Valid samples were taken from 1,074 of the 2,017 persons visited. The questionnaire contained statements dealing with politics and the economy. The second statement was, "The economic indicators announced by the government in September show that Taiwan's economy is now recovering." The response was: 36.8 percent believed it, 44.5 percent did not believe it, and 18.3 percent did not know. The results show that the majority of the public 20 years old or older do not believe the economy is heading toward recovery.

However, has the media, in publishing results like these, effectively created in the public at large a lack of confidence in government policies to encourage economic recovery? Based on a year of financial and economic measures and business and production activity, we can see that it has long been an undisputed fact that we have broken away from the cycle's low point. What needs to be debated at this point is the strength of the recovery. Although the sampling and the number of interviews involved in this poll closely conformed to statistical standards, it could be that, because at the time of the interviews adequate information was not provided (including rates and indicators of economic change for such things as the economic cycle, economic recovery, economic growth, foreign trade, industrial production), the responses of those interviewed could have been affected by deviations in standards of recognition. Perhaps some think that an economic growth of 10 percent is needed before it can be considered a recovery or are using changes in stock market price indexes and the value of sales transactions to judge the current state of the economy. In fact, the above two examples are in error, and examples of this kind are too numerous to mention. Therefore, if in carrying out polling, more explanations could be given for understanding specialized knowledge and special terms, it would tend to improve the situation and public confidence in the polls.

Editorial on Utilization of Foreign Exchange

92CE0123C Taipei CHING-CHI JIH-PAO in Chinese
29 Oct 91 p 2

[Editorial: "Central Bank To Expand the Use of Foreign Exchange"]

[Text] Mr. Hsieh Sen-chung [6200 2773 0022], governor of the central bank, spoke to reporters on 24 September saying that he had proposed a plan to the Executive Yuan in the hopes of utilizing foreign exchange deposits more effectively. The central bank is considering the use of foreign exchange deposits to handle major domestic investment projects. Investments in public works projects by the Ministry of Economic Affairs and the Ministry of Communications and even investment in six Taiwan plastics plants could all receive financing from foreign exchange deposits. These remarks of Mr. Hsieh mark a breakthrough in how the central bank does business. Mr. Hsieh recently attended the World Bank's annual conference in Bangkok where he had contact with central bank officials from major nations of the world. It is thought that his plan derives from new ideas he acquired there. In any case, we thoroughly welcome Mr. Hsieh's proposal.

Taiwan has continued to maintain a favorable balance of trade since the eighties and has, as a result, accumulated large volumes of foreign exchange assets. Although after 1985 the value of the New Taiwan dollar against the U.S. dollar has steadily increased, we still have been unable to reverse the trade balance, nor have we been able to stem the accumulation of foreign exchange assets. For the last two consecutive years, we have had on hand more than \$70 billion; at present, we have \$77 billion, which puts us first in the world. It is an amazing phenomenon that a country that controls only about 36,000 square kilometers of territory and has a population of only about 20 million can accumulate this vast amount of foreign exchange—enough to give each person \$3,850.

During Taiwan's past period of growth, we had a trade deficit and foreign exchange assets were normally in short supply. As such, they were considered a rare commodity and highly valued. This has made it difficult to relax the controls on them. Although the situation for more than 10 years now has been greatly changed with foreign exchange no longer being a rare commodity, the central bank's attitude has never changed. For example, when the New Taiwan dollar shot up in value and greatly eroded the central bank's foreign assets, it did not budge one iota. Of course, if foreign exchange controls had been relaxed during this period, the ban on the outflow of funds would have been lifted. However, except for preserving them, there was no active consideration given on how to utilize foreign exchange assets effectively. Of course, it is not accurate to say that the central bank did not utilize them. It deposited the greater part of them in foreign banks to earn interest. The state earned several billions of U.S. dollars each year this way. However, interest bearing deposits are far from making effective use of these funds. There is still a disparity.

In addition, Taiwan has gained incalculable additional benefits because of the large volume of foreign exchange assets it has accumulated. Our credit is good, our international image has been enhanced, and we have won the attention of the world. Countries want to beef up trade ties with us because of the strength and abundance of our economy. Even though they do not have formal diplomatic ties with us, many countries would like to strengthen substantive ties. Not only have trade officials from many countries been pouring into Taiwan to see about setting up commercial offices, recently high ranking financiers have also been pouring in to see how they can strengthen financial contacts. Even people in charge of the Soviet central bank have recently stepped onto our soil. How could these things be happening if we did not have this colossal amount of foreign exchange?

Aside from all this, what we are still concerned about is how to make effective use of the foreign exchange we have on hand. Not only is depositing it in interest-bearing accounts making use of it, allocating it to building the country is also making use of it to open up living space for us internationally. As early as the conference on economic innovation convened by the Executive Yuan in 1985, a number of specialists and scholars had raised the issue in principle. Even now, some people naively propose that the foreign exchange on hand be used to buy stock in Boeing or to buy a large number of 747's in order to go all out in developing international aviation operations. Of course, the feasibility of this is still open to question. However, allocating foreign exchange on hand to national economic projects is generally recognized as a basic principle in making effective use of it. With respect to carrying it out, it might as well be financed through the central bank in order to provide domestic investment for the import of various types of capital equipment. Of course, these are just basic principles. Initially, the central bank will be quite hesitant and even object, being of the opinion that foreign exchange is hard to come by and cannot be rashly used.

In addition to the six-year plan for national construction promoted by the government and aside from economic projects, there are social and cultural projects which would require outlays of more than 8 billion [ba zhao 0360 0340] yuan. In particular, most of the equipment for large engineering projects and even the contracting calls for international billing. This means paying out large sums of foreign exchange. To repeat what we have said before, we hope that the central bank will be able to make effective use of the foreign exchange on hand to speed up the six-year plan for national construction. Unfortunately, it has never showed a positive reaction. What is gratifying is that the bank is now finally proposing this plan to the Executive Yuan.

However the central bank's proposed plan is carried out, it must involve the responsible departments such as the Ministry of Economic Affairs and the Ministry of Communications so they can propose specific programs and measures. We hope that these two ministries and other departments in charge can quickly put forth their programs so that the central bank can implement its plan as soon as possible.

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5285 PORT ROYAL RD
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